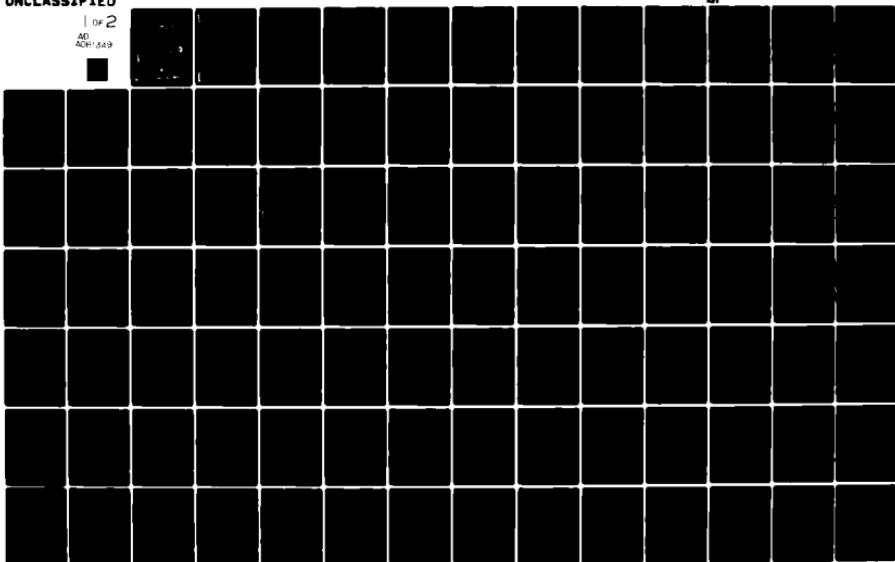


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AN ANALYSIS OF THE PRESIDENT'S BUDGETARY PROPOSALS FOR FISCAL Y--ETC(U)
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FOR FISCAL YEAR 1981.

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NOTES

Unless otherwise indicated, all years referred to in this report are fiscal years.

Details in the text and tables of this report may not add to totals because of rounding.

PREFACE

Analysis of the President's Budgetary Proposals for Fiscal Year 1981 was prepared at the request of the House Committee on Appropriations to assist Members and staff in preparing for overview hearings on the Administration's fiscal year 1981 budget proposals. The report analyzes the economic outlook for the next two years and the fiscal year impact of the President's budgetary proposals. It also examines the major features of the Administration's revenue and spending proposals for 1981 and compares them with past trends and current laws. The effect of the latest Administration budget estimates for the current fiscal year (1980) is presented. Finally, the report discusses the budgetary outlook for 1982 to 1985. → to page xi

The report was prepared by staffs of the CBO Budget Analysis, Fiscal Analysis, and Tax Analysis Divisions, under the supervision of James Blum, William Beeman, and James Verdier. Thelma L. Jones supervised the production of the report; Patricia H. Johnston edited the manuscript; and it was typed for publication by the Budget Analysis Division.

Alice M. Rivlin
Director

February 1980

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SUMMARY

The President's budget for fiscal year 1981 recommends outlays of \$615.8 billion, revenues of \$600.0 billion, and a budget deficit of \$15.8 billion. The proposed budget places primary emphasis on restraining inflation and moving towards budgetary balance. The 1981 budget deficit would be \$24 billion lower than the 1980 deficit estimated by the Administration. This reduction would be achieved by allowing little real growth in total spending and allowing tax burdens to rise to the highest levels since World War II. The following table presents the totals for the President's 1981 budget.

TABLE S-1. THE FEDERAL BUDGET TOTALS, 1979-1981: BY FISCAL YEAR, IN BILLIONS OF DOLLARS

	1979 Actual	1980 Estimates			President's 1981 Budget
		Second Concurrent Resolution	President's Latest Estimate		
Revenues	465.9	517.8	523.8	600.0	
Outlays	493.7	547.6	563.6	615.8	
Deficit (-)	-27.7	-29.8	-39.8	-15.8	
Budget Authority	556.7	638.0	654.0	696.1	
Public Debt	827.6	886.4	887.2	934.2	

THE ECONOMIC OUTLOOK

In the past year, the U.S. economy again experienced high inflation and lagging productivity, conditions that characterized much of the decade of the 1970s. Inflation, as measured by the Consumer Price Index (CPI), accelerated to record post-World War II levels, primarily because of a huge jump in the price of imported oil and a rapid increase in housing finance costs. Meanwhile, economic growth decelerated sharply to less than

1 percent during 1979. This slowdown occurred mainly because of reduced spending growth by households in response to the erosion of real income, the gasoline shortage, and tighter credit conditions. To complete the picture of stagflation, available economic data suggest that output per worker hour--the principal source of rising living standards--actually declined during 1979.

Economic growth followed an uneven path in 1979, with a decline in the Gross National Product (GNP) during the first half of the year, followed by a moderate rebound in the second. Despite the second-half upturn, there were indications at year-end that the economy was again weakening significantly. The consensus view among economic forecasters is for high inflation, weak productivity gains, and rising unemployment during the next year or two. Nevertheless, the economic outlook remains highly uncertain. Nearly all forecasters greatly underestimated inflation in 1979. Although economic activity was weak in 1979, the slowdown was not as pronounced as most analysts expected, and the rise in the unemployment rate was surprisingly small.

Both the Administration and the Congressional Budget Office (CBO) forecast a mild recession in 1980, followed by a rather weak recovery in 1981. Inflation is expected to remain high during the next two years. The unemployment rate is projected to rise by about 1.5 percentage points by late 1980 and to remain at high levels throughout 1981. The Administration forecasts somewhat lower inflation and unemployment during 1981 than the midpoints of the CBO ranges, as shown in Table S-2.

While nearly all forecasts show a decline in economic activity during 1980, there is a fairly wide range of views about the size and duration of the decline. To a considerable degree, these differences reflect divergent assumptions about the future course of fiscal and monetary policies. The Administration's proposed fiscal policy would continue the restraint embodied in current laws. No tax cuts are proposed and, because of the legislated increases in social security payroll taxes and the effect of inflation on the progressive tax structure, budget revenues are projected to rise rapidly in 1981. In addition, the President's revenue estimates include the windfall profits tax on oil producers and an acceleration in tax collections through various cash management initiatives. On the spending side, the Administration proposes to limit total spending growth roughly to the rate of expected inflation.

TABLE S-2. COMPARISON OF ADMINISTRATION AND CBO ECONOMIC FORECASTS: BY CALENDAR YEAR

Economic Variable	1978:4 to 1979:4 (Actual)	1979:4 to 1980:4	1980:4 to 1981:4
Nominal GNP (percent change)			
Administration	9.9	7.9	11.7
CBO a/	7.8	12.3	
Real GNP (1972 dollars, percent change)			
Administration	0.8	-1.0	2.8
CBO a/	-1.3	2.9	
Consumer Price Index (percent change)			
Administration	12.7	10.7	8.7
CBO a/	9.6	9.3	
Unemployment Rate, Average for the Year (percent)			
Administration	5.8	7.0	7.4
CBO a/	7.0	8.0	

a/ Mid-points of projected ranges.

THE 1980 BUDGET OUTLOOK

The President's latest budget estimates for fiscal year 1980 indicate that the budget deficit could be \$10 billion higher than the \$29.8 billion level approved in November by the Congress in the second concurrent resolution on the budget. The projected increase in the budget deficit is primarily the result of higher outlays. The Administration estimates 1980 outlays at \$563.6 billion, an increase of \$16 billion above the second concurrent resolution ceiling of \$547.6 billion. The higher outlays estimated for 1980 could require the Congress to adjust the spending ceilings in the second resolution in order to accommodate supplemental appropriations requested by the Administration for certain mandatory entitlements programs, the costs of the October 1979 federal pay raise and various other purposes.

The higher outlays can be attributed to higher interest costs (\$5 billion), higher inflation (\$2 to \$3 billion), higher farm price supports resulting from the recent grain embargo (\$2 billion), lower asset sales of federally held mortgages and loans (\$2 billion), delayed Congressional action on various legislative savings proposals such as hospital cost containment (\$2 to \$3 billion), and various new spending proposals not assumed for the resolution.

Total 1980 revenues are estimated in the President's budget at \$523.8 billion, or \$6 billion above the second budget resolution floor. The increased revenues result primarily from a higher estimate of 1980 receipts from the proposed windfall profits tax and to differences in economic assumptions and estimating techniques.

CBO's preliminary review of the Administration's latest 1980 budget estimates, using CBO's economic forecast and estimating methods, suggests that both revenues and outlays are reasonable, although both may be slightly overstated in the budget. The net effect on the projected \$40 billion deficit would be small, however.

THE 1981 BUDGET OUTLOOK

The Administration and the Congress had planned to balance the budget in 1981. The projected decline in the economy and its attendant higher levels of unemployment, however, will reduce revenues and increase expenditures for such programs as unemployment insurance and public assistance. Continued high inflation will also add to federal expenditures. Nevertheless, the \$15.8 billion deficit estimated for 1981 by the Administration would be the smallest since 1974.

Revenues. The President's budget projects revenues growing by 14.5 percent in 1981 over 1980--from \$523.8 billion to \$600 billion. About half--\$36 billion--of the \$76 billion revenue increase comes from individual income taxes, because inflation and resumed growth in real incomes push taxpayers into higher marginal tax brackets. CBO estimates that the effects of inflation will add about \$10 billion to 1981 individual income taxes.

The growth in social insurance taxes and contributions account for another \$25 billion of the projected increase from 1980. Over 40 percent of this increase can be attributed to the increases in the Social Security program taxable wage base (from \$25,900 to \$29,700) and in the combined tax rate (from 12.26 percent to 13.3 percent) scheduled under current law to

take effect on January 1, 1981. The net effect of the President's energy program, including the windfall profits tax and several energy tax credits, is estimated to add another \$8 billion in revenues in 1981.

The absence of a tax cut in 1981 coupled with \$21 billion in estimated additional revenues from the windfall profits tax and other revenue initiatives would increase the ratio of federal revenues to GNP to 21.7 percent, the highest level since 1944. Periodic tax reductions have been enacted in the past to prevent tax burdens from reaching this level. Several major tax cuts have been discussed in the Congress, including reductions in social security payroll taxes which could have a beneficial effect of reducing inflation, increases in business depreciation allowances to stimulate investment, indexing the individual income tax for inflation, and tax incentives for increasing personal saving.

Outlays. The President's budget for 1981 projects outlays to increase by 9.3 percent, about the same rate as forecast for inflation. Spending by the Defense Department is estimated to rise by 12 percent, or about 3 percent in real terms. Benefit payments for individuals, many of which are adjusted automatically for increases in the cost of living, are expected to grow by over 13 percent between 1980 and 1981 as the result of inflation and population growth. Increased spending for national defense and payments for individuals account for nearly all of the projected \$52 billion growth in outlays. Increased spending in other federal programs would be offset primarily by reduced outlays for farm price supports and unusually high levels of sales of federal assets.

The ratio of federal outlays to GNP is projected to rise to 22.4 percent in 1980, largely as a result of the expected recession which will limit the growth in GNP and automatically increase federal spending. For 1981, this ratio is projected to decline slightly to 22.3 percent, a full percentage point above the 1979 level.

Spending Initiatives. The major spending initiative in the President's 1981 budget is increased budget authority for defense programs of about 5 percent in real terms, and continued real growth in 1982 and 1983. The focus of debate on the appropriate amount of real growth in defense has shifted this year from outlays to budget authority. Real growth is also proposed for various energy programs and for basic research. To help solve the problems of youth employment, the President is recommending a major new program of grants to schools and a consolidation and expansion of existing youth training and employment programs. The budget includes \$2 billion in budget authority and \$0.8 billion in outlays in 1981 for this initiative, and increased funding in 1982 and 1983.

The President is also recommending that general revenue sharing be extended for 5 years at the 1980 funding level (\$6.9 billion), and that legislation be enacted to provide for a new antirecession fiscal assistance program. The President's budget also assumes enactment of various legislative proposals that would reduce 1981 outlays by \$5.6 billion, and 1982 and 1983 outlays by even greater amounts. The major legislative savings proposals involve reform of federal employee compensation and hospital cost containment.

CBO's preliminary review of the 1981 budget estimates, using the CBO economic forecast and estimating methods, suggests that outlays could be \$5 to \$10 billion higher than projected by the Administration. Revenues under current law are estimated to be about \$3 billion higher under the CBO economic forecast, largely because of a somewhat higher inflation than forecast by the Administration. On the other hand, the budget estimate for the windfall profits tax appears to be overstated based on Congressional action to date. The net effect of the CBO preliminary reestimates of revenues and outlays would be to increase the size of the projected budget deficit by \$3 to \$8 billion. The actual budget deficit, of course, could be larger or smaller depending upon how the economy performs during the next two years, Congressional action on the President's proposals, and many other factors.

ALTERNATE BUDGET PROPOSALS

Public Law 96-5, enacted in April 1979 to provide a new temporary public debt limit, included a provision that requires the President to transmit alternate proposals to balance the budget if his budget recommendation~~s~~ would result in a deficit. The President's 1981 budget contains such alter~~hate~~ate proposals, but he does not recommend their adoption because the Administration believes the more restrictive fiscal policy needed to achieve balance would lead to a deeper and more prolonged economic downturn.

The Administration estimates that to achieve a balanced budget in 1981 would require \$20 billion in tax increases or spending decreases. The President's budget presents a number of possible ways to balance the budget. They include a surcharge of about 6 percent on individual and corporate income taxes, an increase in payroll taxes, or a further increase in the proposed windfall profits tax. On the spending side, the budget lists a number of possible reductions, including the following:

- o Allowing no real growth in obligational authority for defense programs through 1983 would reduce 1981 outlays by about \$2 billion and 1983 outlays by \$20 billion.
- o Limiting cost-of-living adjustments to 75 percent of what otherwise would be made for social security, veterans' pension, civil service and military retirement, and other programs indexed to the Consumer Price Index would reduce outlays by \$6 billion in 1981 and almost \$12 billion by 1983.
- o Terminating the general revenue sharing program would reduce 1981 outlays by \$5 billion and 1982 and 1983 outlays by about \$7 billion.
- o Denying the pay raises that are scheduled for October 1980, for savings of about \$3 billion. The budget estimates that the pay raise for civilian employees otherwise would be 6.2 percent under the Administration's pay reform, and 7.4 percent for military personnel.
- o Eliminating the Administration's energy security initiatives would reduce budget outlays in 1981 by an estimated \$3.7 billion.

Aside from placing a cap on the cost-of-living adjustments for social security and other programs indexed to the CPI, the President's budget does not list any other alternatives for major reductions in benefit payment programs. These programs constitute a growing share of the federal budget. In 1969, payment for individuals accounted for 30 percent of total outlays. This share rose to 46 percent in 1979, and the President's budget projects that they will make up 50 percent of total outlays by 1983.

THE LONGER-RUN BUDGET OUTLOOK

The President's long-range budget projections for 1982-1985 projects rapidly rising revenues. Since no tax cuts are assumed, revenues as a percent of GNP would be at record levels throughout the period--reaching approximately 25 percent of GNP by fiscal year 1985. Although legislative proposals in the 1981 budget increase projected revenues somewhat, the major source of projected revenue growth is legislation now in force. Under current law, the progressive individual income tax would take an increasing fraction of wage earners' income as inflation-related wage increases move individuals into higher tax brackets. If tax cuts were to offset the

disproportionate response of the individual income tax to inflation, projected revenues would be reduced by \$24 billion in 1982, and \$118 billion by fiscal year 1985.

The President's long-range spending projections are dominated by increases in benefits for individuals and national defense. As reestimated by CBO, outlays would reach a postwar high of nearly 23 percent of GNP in fiscal year 1983. The largest initiative in the budget is the planned start of a national health plan in 1983 at a projected cost of \$24 billion. This initiative and the automatic increase in outlays for entitlements under current law because of population growth and automatic indexing to inflation lead to a shift in budget priorities by fiscal year 1985. Benefit payments would comprise 54 percent of federal spending, compared to 48 percent in fiscal year 1979. The other major long-range proposal for increased spending is for continued real growth in defense spending. Preliminary CBO estimates show that the budget plan for 1982-1985 contains real growth in defense averaging 2.5 percent annually. The President's budget also contains several proposed reductions that, if enacted, would lead to considerably greater savings in 1982-1985 than in 1981. These reductions include hospital cost containment, various social security reforms, and federal pay reform.

Under the President's budget projections, the federal government would be taking more out of the economy in the form of tax receipts than it would be putting back in the form of wages, transfer payments, and purchases. This fiscal drag on the economy would make it unlikely that economic growth would be as strong as assumed in the budget. Consequently, as the President's budget acknowledges, it is not correct to construe the budget margin (that is, the difference between the President's projected revenues and outlays in 1982-1985) as a projection of budget surpluses. In all likelihood, tax cuts or spending increases that would use up most of the budget margin would be required to sustain economic expansion. These fiscal policy changes could lead to a budget deficit ranging from \$5 to \$35 billion in fiscal year 1982 and budget balance by fiscal year 1983.

CHAPTER I. THE ECONOMY AND THE ADMINISTRATION'S FISCAL POLICY

The state of the economy has important implications for the federal budget, and, in turn, budgetary decisions can have significant effects on the economy. This chapter summarizes the Administration's forecast of the economy through 1981 and compares it to CBO's economic forecast. It also describes the fiscal policy proposed in the Administration's budget for fiscal year 1981 and some longer-term economic considerations raised by the budget. In brief, both the Administration and CBO expect a mild recession in 1980, followed by a rather weak recovery in 1981, with a continuation of high rates of inflation. With respect to fiscal policy, the Administration's proposed budget is restrictive, implying an emphasis on curbing inflation and reducing the federal deficit. The Administration's longer-range economic assumptions are in accord with the economic goals required by the Humphrey-Hawkins Act; they are substantially more optimistic than those used in CBO's five-year projections. 1/

THE ADMINISTRATION AND CBO ECONOMIC FORECASTS

The Administration forecasts a decline in real economic growth (Gross National Product (GNP) in 1972 dollars) of 1.0 percent between the fourth quarters of 1979 and 1980 (see Table 1), followed by growth of 2.8 percent between the fourth quarters of 1980 and 1981. The inflation rate, as measured by the GNP implicit price deflator, is expected to be close to 9 percent during this period. Unemployment, according to the Administration's forecast, will rise from its current level of 5.9 percent to 7.5 percent by the last quarter of 1980 before dropping slightly to 7.3 percent in the last quarter of 1981. This forecast assumes the adoption of the fiscal and programmatic policies presented in the President's budget.

1/ See the forthcoming CBO Report, Five-Year Budget Projections: Fiscal Years 1981-1985.

TABLE 1. COMPARISON OF THE ADMINISTRATION'S AND CBO'S ECONOMIC FORECASTS, CALENDAR YEARS 1980 AND 1981

Economic Variable	Administration Forecast	CBO Forecast
Nominal GNP (percent change)		
1979:4 to 1980:4	7.9	5.7 to 9.8
1980:4 to 1981:4	11.7	10.2 to 14.4
Consumer Price Index (percent change)		
1979:4 to 1980:4	10.4 a/	8.6 to 10.6
1980:4 to 1981:4	8.6 a/	8.3 to 10.3
Real GNP (1972 dollars, percent change)		
1979:4 to 1980:4	-1.0	-2.3 to -0.3
1980:4 to 1981:4	2.8	2.0 to 4.0
Inflation (percent change in GNP deflator)		
1979:4 to 1980:4	9.0	8.2 to 10.2
1980:4 to 1981:4	8.6	8.1 to 10.1
Unemployment Rate, End of Period (percent)		
1980:4	7.5	7.2 to 8.2
1981:4	7.3	7.5 to 8.5

SOURCES: The Budget of the United States Government, Fiscal Year 1981, p. 31; and CBO, Entering the 1980s: Fiscal Policy Choices (January 1980), p. 56.

a/ Percent change, December over December.

CBO's economic forecast indicates that real GNP will decline by 0.3 to 2.3 percent between the fourth quarter of 1979 and the fourth quarter of 1980. This decline will be followed by positive, but slow, economic growth the following year. 2/ CBO forecasts that the inflation rate will remain high in both years, with the GNP deflator increasing about 8 to 10 percent each year. The Consumer Price Index (CPI), however, is not expected to increase quite so rapidly in 1980 and 1981 as in 1979. 3/ The unemployment rate is projected to increase to the 7.2 to 8.2 percent range by the fourth quarter of 1980 and to be slightly higher at the end of the following year.

The CBO forecast is based on two important policy assumptions:

- o Federal spending and tax policies for fiscal years 1980 and 1981 will continue to be those now specified in "current law", that is, action completed by the Congress through 1979 plus anticipated supplemental appropriations for certain entitlements, such as Medicaid and food stamps, and for the federal pay raise that became effective October 1, 1979.
- o Monetary policy is assumed to be moderately restrictive, with money aggregate growth near the midpoint of the Federal Reserve's announced target range.

The main reasons that CBO expects a recession in 1980 include:

- o Real disposable personal income is expected to lag because of rapid inflation and slow employment growth;
- o Personal saving rates are expected to increase somewhat in 1980, further restricting household spending; and
- o Tight credit conditions are expected to slow economic activity, especially in residential housing construction.

2/ For a more detailed discussion of the outlook, see Entering the 1980s: Fiscal Policy Choices, CBO Report (January 1980).

3/ A major reason that the CPI increased more rapidly than the GNP deflator between 1978 and 1979, followed by an expected reversal in 1980, is that the CPI is significantly more affected by changes in housing prices and interest rate movements. For a more detailed analysis, see the Appendix in Entering the 1980s: Fiscal Policy Choices.

The recession, however, is expected to be mild, with less severe declines in inventories, business fixed investment, and housing than have occurred in typical recessions in the post-World War II period. At the same time, the recovery is expected to be weaker than usual. This results partly from the shallowness of the recession and partly from an expectation that inflation and interest rates will remain high. In addition, the current law federal budget becomes more restrictive in 1981 than in 1980.

In general, the differences between the Administration's and CBO's economic forecasts are slight.^{4/} The Administration's estimates of real economic growth and inflation lie within the CBO ranges for both 1980 and 1981. In 1981, however, the Administration's estimate of the unemployment rate is slightly below the CBO range. In the Administration forecast, the unemployment rate declines slightly in 1981 compared to 1980, while in the CBO forecast, it increases slightly. The result is that the Administration estimate for 1981 is roughly one-half percentage point below the mid-point of CBO's estimate.

The two forecasts also differ slightly on their projected inflation rates. For the general price index (GNP deflator), the two forecasts are very similar in late 1980, but in late 1981, the Administration's estimate is about one-half percentage point below the midpoint of CBO's estimate. For the Consumer Price Index, the Administration is near the high end of the CBO range in late 1980, but near the low end in 1981. In sum, by the end of the forecast period, the Administration seems slightly more optimistic about the inflation rate.

FISCAL POLICY PROPOSED BY THE ADMINISTRATION

The Administration's proposed fiscal policy for fiscal year 1981 is approximately the same as that implied by current law. If the proposals included in the President's budget were approved by the Congress, the budget would have a restrictive effect on real economic activity. This fiscal strategy is intended to help restrain inflation and reduce the budget

^{4/} Although it is generally not a good idea to compare economic forecasts without adjusting for differences in assumptions, particularly fiscal policy assumptions, the difference in fiscal policy assumptions in this case is not very substantial, as discussed later in this chapter. A more detailed discussion of the Administration's forecast is contained in the Economic Report of the President (1980).

deficit. No tax cuts are proposed and, because of already legislated increases in social security payroll taxes and the effect of inflation on the progressive income tax structure, receipts will rise rapidly in 1981. The Administration's budget also includes a significant tax increase--the windfall profits tax (actually an excise tax on oil production) that the Administration expects to increase revenues by \$13.9 billion in fiscal year 1981. The budget also proposes an acceleration in tax collections, which is expected to increase revenues by \$4.5 billion in fiscal year 1981. The 1981 budget includes both increases and decreases in federal expenditures over current law levels. While spending increases exceed decreases--the net change from CBO's current law (including a 7 percent federal pay raise) is about \$14 billion--the economic impacts of both tax and spending proposals appear to cancel each other out so that from a fiscal policy view the budget is as restrictive as current law.

The Administration's proposed budget (unified basis) and CBO's estimates of budgetary totals under current law are summarized in Table 2. For fiscal year 1981, the Administration budget shows receipts of \$600 billion and outlays of \$615.8 billion, with a deficit of \$15.8 billion. The CBO estimates under current law are \$582 billion for receipts and \$609 billion for outlays, with a deficit of \$27 billion. The differences between the CBO and Administration budget estimates result from new policy initiatives proposed by the Administration, adjustments for anticipated inflation for most spending programs, different economic assumptions, and alternative estimation and projection techniques. The CBO analysis of the Administration's budget, using the CBO economic assumptions and methodology, suggests that outlays could rise above the Administration estimates by \$5 to \$10 billion and receipts by about \$2 billion.

The deficit can be a misleading measure of fiscal policy because developments in the economy, such as a recession, have a significant impact on the budget. The full-employment (or "high-employment") budget, which shows the hypothetical surplus or deficit that would be implied if the economy were at full employment, provides a measure of fiscal policy that attempts to remove the effects of the business cycle. Under current law (that is, assuming no tax cuts and no changes in spending programs), CBO's estimate of the full-employment budget swings sharply in a restrictive direction in fiscal 1981, by about \$45 billion. The full-employment budget (as estimated by the CBO) moved from a deficit of about \$20 billion in 1977 and 1978 to roughly a balance in 1979.

The economic effects of the budget are best estimated on a national income and product accounts basis (NIA) rather than the unified budget concepts used elsewhere in this report. On this basis, the Administration's budget receipts would be about \$5.5 billion higher in fiscal year 1980 and

\$13.6 billion higher in fiscal year 1981. 5/ Expenditures would be about \$3.0 billion higher in fiscal 1980 and \$15.0 billion higher in 1981, with about two-thirds of these increases for purchases of goods and services.

CBO's analysis of the short-run economic impact of the budgetary changes proposed by the President indicated that, taken together, they would not have an effect on the overall economy that differs significantly from the current law budget. While CBO's analysis indicates that the Administration's fiscal policy proposals have largely offsetting impacts on the economy, that conclusion should be interpreted with considerable caution. In particular, there is great uncertainty about the economic impact of the windfall profits tax.

TABLE 2. THE FEDERAL BUDGET OUTLOOK UNDER CBO CURRENT LAW ESTIMATE AND ADMINISTRATION PROPOSALS: BY FISCAL YEAR, IN BILLIONS OF DOLLARS

	1979 (actual)	CBO Current Law Estimates		Administration Budget Proposal	
		1980	1981	1980	1981
Receipts	465.9	516	582	523.8	600.0
Outlays (percent change)	493.7 (9.5)	560 (13.4)	609 (8.8)	563.6 (14.2)	615.8 (9.3)
Deficit	27.7	44	27	39.8	15.8

SOURCES: The Budget of the U.S. Government, Fiscal Year 1981, and the Congressional Budget Office.

The Administration's budget proposals for fiscal year 1981 emphasize the goal of reducing inflation rather than that of reducing unemployment or increasing economic growth. The anti-inflation program includes, in

5/ The cash management proposals would affect the timing of federal receipts but not the amount of taxes owed. Therefore, they would have no impact on federal receipts on a national income accounts basis.

increasing economic growth. The anti-inflation program includes, in addition to a tight budget and tight monetary policy, hospital cost containment and continuation of the Administration's wage-price incomes policy. Over the longer run, the Administration's strategy for reducing inflation emphasizes increasing productivity. However, the budget's proposals along this line are quite modest and without substantial budgetary impact. Among them are proposals aimed at increasing innovation and increases for research in development, including a 3 percent increase in real spending for basic research. In addition, over two-thirds of this increase is in the areas of defense and space which may not have much impact on productivity in the private business sector. In the area of enhancing the skills of the labor force, the Administration proposes a modification and expansion of youth employment programs, but this would not significantly increase outlays until after fiscal year 1981. No tax reductions to stimulate capital formation are proposed, though the Administration indicates that proposals to reduce tax burdens will be carefully considered between now and 1985.

ALTERNATIVE BUDGET PROPOSALS

In accord with Public Law 96-5 (the 1979 legislation that increased the federal debt ceiling), the President's 1981 budget included proposals for attaining a balanced budget (although it did not recommend these proposals). In its discussion, the Administration pointed out that in order to reduce the federal deficit by \$15.8 billion, the effects on the economy would have to be considered. Specifically, it estimated that \$20 billion in tax increases or spending decreases would be required to produce a balanced budget in 1981. While the Administration emphasized that this strategy would restrict the economy, quantitative estimates of the impact were not included.

In its recent economic report,^{6/} however, CBO estimated the economic impact of several alternative federal budgets, including an illustrative across-the-board cut of \$20 billion in federal spending. The results may indicate "order of magnitude effects" of such a policy although these would be influenced by the precise composition of the reduction. In the CBO analysis, the employment rate was about 0.3 percentage points higher after four quarters. The beneficial impact on inflation took longer to materialize, with the GNP implicit deflator about 0.1 percent lower after 8 quarters and 0.3 percent lower after 12 quarters.

^{6/} See Entering the 1980s: Fiscal Policy Choices, pp. xix-xxi and pp. 88-91.

Longer-Run Considerations--1982 Through 1985

The Administration's longer-run economic assumptions for calendar years 1982 through 1985 are presented in Table 3, together with the assumptions CBO used in its five-year projections.^{7/} The Administration's longer-run assumptions are required to be in accord with the Humphrey-Hawkins Act. (P.L. 95-523) As provided by that legislation, however, the Administration is permitted to alter the 1983 attainment of the 4 percent unemployment goal and the 3 percent inflation goal. The Administration's longer-range economic assumptions reflect a postponement of the schedule to 1985 for the unemployment goal and to 1988 for the inflation goal. (The reasons for this postponement are discussed in the 1980 Economic Report.)

TABLE 3. ADMINISTRATION'S LONG-RANGE ECONOMIC ASSUMPTIONS AND CBO'S FIVE-YEAR PROJECTIONS ASSUMPTIONS, CALENDAR YEARS 1982-1985

Economic Variable	Administration	CBO
Real GNP (1972 dollars, percent change)		
1982	4.3	3.4
1983	5.0	3.8
1984	4.9	3.8
1985	4.7	3.8
Inflation (percent change in GNP deflator)		
1982	8.2	9.0
1983	7.4	8.4
1984	6.8	8.0
1985	6.1	7.7
Unemployment Rate, Annual Average (percent)		
1982	6.8	7.8
1983	5.9	7.1
1984	5.1	6.4
1985	4.3	6.0

SOURCES: The Budget of the United States Government, Fiscal Year 1981, p. 32, and the Congressional Budget Office.

^{7/} See forthcoming CBO Report, Five-Year Projections: Fiscal Years 1981-1985.

The Administration assumes that the unemployment rate will fall to 5.1 percent in 1984 and 4.3 percent in 1985. The inflation rate, as measured by the GNP deflator, decreases to 6.1 percent by 1985. Real economic growth, by historic standards, is high, 4.3 percent in 1982 and 5 percent in 1983 and then tapering off to 4.7 percent by 1985.

These longer-range assumptions underlying the 1982-1985 estimates in the President's budget, are considerably more optimistic than the assumptions used by CBO in its five-year budget projections. The CBO assumptions call for real growth below 4 percent throughout the period, inflation gradually moderating from the 9 percent rate to 7.7 percent in 1985, and an unemployment rate that does not average below 6 percent by 1985.

The Administration's budget includes several important expenditure initiatives by 1985. These include increased spending for defense, youth employment, national health insurance, and welfare reform. On the receipts side, the budget indicates that tax reductions will probably be required to maintain economic growth, since under current law tax receipts grow considerably more rapidly than expenditures. It does not indicate the timing or composition of any such tax reductions, however.

CHAPTER II. REVENUE ESTIMATES AND PROPOSALS

The President's budget for fiscal year 1981 includes revenues of \$600 billion, \$21 billion of which would require new legislative or administrative action. The major revenue initiatives proposed in the President's budget include the windfall profit tax on oil production and cash management proposals that would accelerate certain tax collections. If the Congress does not enact any of the President's proposals, revenues would be \$579 billion, according to Administration estimates. CBO estimates of these current law revenues are \$3.5 billion higher.

Under the President's proposed 1981 budget, revenues as a percentage of Gross National Product (GNP) will increase to 21.8 percent, the highest level since World War II (see Table 4). Without a tax cut, revenues as a percentage of GNP in fiscal years 1982 to 1985 will reach the highest levels in U.S. history, rising to 24.8 percent of GNP by 1985. This revenue growth will result primarily from increases in individual income taxes and Social Security payroll taxes. Individual income taxes will rise mainly because inflation will push taxpayers into higher tax brackets. Social Security payroll taxes will increase primarily as a result of the 1977 legislative changes that were designed to assure adequate funding for future benefits.

While the President proposed no major tax reductions, Congress has discussed several, including cuts in Social Security payroll taxes, increases in business depreciation allowances, indexing the individual income tax for inflation, and tax incentives for personal saving. Each would reduce 1981 taxes by billions of dollars if enacted. Unanticipated growth in existing tax subsidies or tax expenditures might also cause revenues to fall below the levels projected in the President's budget.

This chapter compares the revenue estimates of the Administration with those of CBO, and discusses the revenue proposals contained in the budget and some of the tax reduction options that have been debated in the Congress.

TABLE 4. DISTRIBUTION OF BUDGET RECEIPTS BY SOURCE, SELECTED FISCAL YEARS 1965-1985

	Actual			CBO Estimates of President's Budget Receipts Request a/		
	1965	1970	1975	1980	1981	1985
As a Percent of GNP						
Individual Income Taxes	7.1	9.2	8.0	9.5	10.0	12.5
Corporation Income Taxes	3.7	3.3	2.7	2.9	2.7	3.1
Social Insurance Taxes and Contributions	3.2	4.6	5.6	6.5	6.8	7.1
Other	3.0	2.6	2.1	2.0	2.4	2.2
Total	17.0	19.7	18.4	20.8	21.8	24.8
In Billions of Dollars						
Individual Income Taxes	48.8	90.5	122.4	237.8	275.7	550.2
Corporation Income Taxes	25.4	32.8	40.6	71.8	74.1	134.5
Social Insurance Taxes and Contributions	22.3	45.3	86.5	161.6	187.2	313.3
Other	20.3	25.2	31.6	50.8	66.5	96.6
Total	116.8	193.7	281.0	522.0	603.5	1094.5

SOURCE: Statistical Appendix to Annual Report of the Secretary of the Treasury on the State of the Finances, 1976; Congressional Budget Office estimates.

a/ CBO current law estimates plus Administration receipts proposals.

ESTIMATES OF REVENUE FOR FISCAL YEARS 1980 AND 1981

The revenue estimates in the President's budget consist of an estimate of the revenue that would be generated under current tax laws plus the net increase resulting from new proposals. The Administration estimates that revenues under current law will be \$517.4 billion in fiscal year 1980 (see Table 5). This is \$1.8 billion above the CBO current law estimate.

TABLE 5. ADMINISTRATION AND CBO ESTIMATES OF THE PRESIDENT'S REVENUE REQUEST: BY FISCAL YEAR, IN BILLIONS OF DOLLARS

	1980	1981	1982	1983	1984	1985
Administration						
Current law	517.4	579.0	663.1	770.0	886.6	1020.1
Budget Proposals	<u>6.4</u>	<u>21.0</u>	<u>28.0</u>	<u>28.8</u>	<u>33.9</u>	<u>41.1</u>
Total	532.8	600.0	691.1	798.8	920.5	1061.2
CBO						
Current law	515.6	582.5	677.6	781.2	905.4	1053.4
Budget proposals	<u>6.4</u>	<u>21.0</u>	<u>28.0</u>	<u>28.8</u>	<u>33.9</u>	<u>41.1</u>
Total	522.0	603.5	705.6	810.0	939.3	1094.5

SOURCE: The Budget of the United States Government, Fiscal Year 1981, p. 39; Congressional Budget Office estimates.

For fiscal year 1981, CBO estimates that current law revenues will be \$582.5 billion or \$3.5 billion higher than the Administration's estimate. Part of this difference is attributable to different economic assumptions, part to different estimating techniques. CBO's economic forecast assumes higher inflation, personal income, and corporate profits than the Administration's forecast. By itself, this would add \$6.6 billion to CBO's estimate of current law revenues. This is partly offset, however, by CBO's estimating techniques, which result in \$3.1 billion less in revenues than the Administration's estimate when the Administration's economic assumptions are used.

THE PRESIDENT'S LEGISLATIVE PROPOSALS AND THEIR EFFECT ON REVENUES

The 1981 budget contains a number of revenue proposals, many of which the Administration has made before, such as the cash management initiatives and the restrictions on foreign tax credits claimed by U.S. oil companies. The Administration estimates that fiscal year 1981 revenues will be increased by \$21 billion from these proposed legislative or administrative actions (see Table 6). A large share of this increase is expected to come from the windfall profit tax. While little legislative progress has been made on many of the Administration's proposals, two that involve large revenue gains--the windfall profit tax and limitations on tax-exempt bonds--are quite far along in the legislative process. The specific revenue proposals are discussed in the following paragraphs.

Windfall Profit Tax and Energy Tax Credits. In conjunction with his decision to phase out price controls on domestic crude oil, President Carter proposed a windfall profit tax. The revenue gains of the Administration's proposal and the bills passed by the House and Senate differ substantially (see Table 7). While the conferees have agreed to an eleven-year revenue target, they have not yet agreed on all of the specifics of the tax. It appears likely, however, that the conference bill will result in revenue increases from the windfall profit tax of \$3.5 to \$4.0 billion in fiscal year 1980 and \$12.5 to \$13.5 billion in fiscal year 1981.

In addition to the windfall profit tax, the Senate version of the bill now in conference includes a variety of new and increased tax credits for energy conservation and production. The House bill has no provisions of this sort, but the President's budget also includes some energy tax credits. The tax credits in the Senate bill would reduce revenues by \$2.6 billion dollars in fiscal year 1981 while those proposed by the Administration would reduce fiscal year 1981 revenues by \$0.3 billion (see Table 7).

Tax-Exempt Mortgage Bonds. The President's budget includes an estimated \$0.8 billion in additional revenues in fiscal year 1981, increasing to \$8.8 billion in fiscal year 1984, from proposed legislation that would ban tax-exempt housing bonds for single-family housing and restrict their use for multifamily housing. The legislation that emerges from the Congress may be less restrictive than the Administration's proposal and, therefore, may not generate as much revenue. For instance, the bill reported out by the Ways and Means Committee (H.R. 5741) would bring in \$200 million less than the President's proposal in fiscal year 1981, and \$400 million less in fiscal year 1984.

TABLE 6. PRESIDENT'S LEGISLATIVE AND ADMINISTRATIVE PROPOSALS:
BY FISCAL YEAR, IN BILLIONS OF DOLLARS

Proposal	1980	1981	1982	1983	1984	1985
Windfall Profit Tax	+5.5	+13.9	+18.2	+19.5	+21.4	+24.0
Energy Tax Credits	-0.1	-0.3	-0.4	-0.6	-0.6	-0.8
Foreign Tax Credit on Oil and Gas Extraction	+0.9	+0.7	+0.7	+0.7	+0.8	+0.9
Cash Management	---	+4.5	+5.6	+2.2	+1.4	+1.6
Tax-Exempt Housing Bonds	+0.1	+0.8	+2.5	+5.2	+8.8	+13.4
Independent Contractor/ Employees Tax Status	---	+0.6	+0.6	+0.7	+0.9	+1.1
Railroad Retirement Taxes	---	+0.3	+0.3	+0.3	+0.3	+0.3
Airport and Airway Trust Fund Taxes a/	b/	+0.2	+0.3	+0.3	+0.4	+0.4
Employer Social Security Tax on Tips	---	b/	b/	b/	+0.1	+0.1
Oil and Hazardous Substance Cleanup	---	+0.2	+0.3	+0.4	+0.4	b/
Reduction in Premiums of Uninsured Individuals	---	---	---	b/	b/	b/
Elimination of With- holding Tax on Interest Paid to Foreigners	b/	b/	b/	b/	b/	-0.1
Taxation of Foreign Investment in U.S. Real Estate	b/	b/	b/	+0.1	+0.1	+0.1
Tax-Exempt Public Housing Bonds	b/	b/	b/	b/	b/	b/
Historic Preser- vation	---	b/	b/	b/	b/	b/
Total	+6.4	+21.0	+28.0	+28.8	+33.9	+41.1

SOURCE: The Budget of the U.S. Government, Fiscal Year 1981, pp. 61-69,
for fiscal years 1980-1983; Treasury Department for fiscal years
1984-1985.

- a/ Estimate of the effects of the President's proposal to increase airport and airway taxes above the current tax rates. Revenues from an extension of current rates beyond the scheduled June 30, 1980, expiration date are included in current law.
- b/ Less than \$50 million.

TABLE 7. COMPARISON OF WINDFALL PROFIT TAX AND ENERGY TAX CREDIT PROPOSALS, NET INCREASES IN REVENUES: BY FISCAL YEAR, IN BILLIONS OF DOLLARS a/

	1980	1981	1982	1983	1984	1985
Windfall Profit Tax						
Administration proposal <u>b/</u>	5.5	13.9	18.2	19.5	21.4	24.0
House bill <u>c/</u>	5.8	15.5	21.4	22.1	22.7	23.8
Senate bill <u>c/</u>	3.9	11.9	16.7	15.5	15.1	15.0
Energy Tax Credits <u>d/</u>						
Administration proposals <u>b/</u>	-.1	-.3	-.4	-.6	-.6	-.8
Senate bill <u>e/</u>	-1.5	-2.6	-2.7	-1.6	-2.3	-2.4

- a/ The net increase in revenues is equal to the gross excise tax collections from the tax, minus the reduction in income taxes resulting from the deductibility of the windfall profit tax payments.
- b/ Administration estimate.
- c/ CBO estimate.
- d/ The House bill does not contain a provision for energy tax credits.
- e/ Joint Committee on Taxation estimate.

Cash Management Initiatives. The President's 1981 budget includes substantially the same cash management proposals that were included in his 1980 budget. One proposal deleted from this year's package is the acceleration of state and local deposits of Social Security taxes, which is scheduled to go into effect as a result of administrative action in July 1980. CBO and the Administration have included this change in their current law estimates. The other cash management initiatives include proposals to require individual and corporate taxpayers to make earlier payments of income taxes, to require employers to deposit taxes withheld from employees more quickly, and to speed up the payment schedule for customs duties and tobacco excise taxes.

Those cash management proposals that can be implemented through administrative action would increase fiscal year 1981 revenues by \$3 billion, while those that require legislation would raise \$1.5 billion (see Table 8). The Administration has indicated, however, that it may not implement the administrative portions without a Congressional go-ahead.

Other Legislative Proposals. The President's other legislative proposals would add about \$2 billion to current law revenues for 1981. None has advanced very far in the legislative process, and all involve some controversy.

OTHER POSSIBLE PROPOSALS TO REDUCE REVENUES

The prospect of a recession, inflation-induced increases in tax burdens, and concern over lagging productivity and investment have generated Congressional discussion about a wide variety of tax cut proposals in the past year. Brief descriptions of some of the major ones are provided here in order to give some indication of the potential demands on federal revenues that the Congress may face in fiscal year 1981.

Social Security Payroll Tax Cuts

Under current law, the Social Security wage ceiling and tax rates are scheduled to increase significantly at the beginning of 1981. Employer and employee contributions will each climb from 6.13 percent to 6.65 percent, and the wage ceiling will rise by nearly \$4,000, to \$29,700. In fiscal year 1981, the increased revenues associated with these tax increases will be about \$10 billion; in fiscal year 1985, these increases will amount to \$24 billion (see Table 9). CBO estimates that these amounts will be needed to ensure that the Old Age and Survivors' Insurance fund, the largest of the three social security trust funds, maintains a positive balance in the near future.

If the Congress wishes to roll back the 1981 tax increase, some reduction in Social Security outlays or a supplementary source for financing benefit payments may be necessary. The Congress could choose to increase Social Security revenues without raising payroll taxes by assigning a portion of the annual inflation-induced rise in income tax liabilities--estimated to be \$10 billion in fiscal year 1981--to the Social Security trust funds. This could be done directly or, if the 1981 tax increase remains in effect, by enacting an income tax credit for payroll tax contributions to offset the

TABLE 8. REVENUE EFFECTS OF THE ADMINISTRATION'S CASH MANAGEMENT PROPOSALS: BY FISCAL YEAR, IN BILLIONS OF DOLLARS

Proposal	1980	1981	1982	1983	1984	1985
Administrative Changes						
Individual income taxes, employer deposits of withheld taxes	0.0	1.7	1.2	0.4	0.4	0.5
Social insurance taxes, employer deposits of withheld taxes	0.0	0.9	0.6	0.2	0.2	0.3
Customs duties	0.0	0.2	a/	a/	a/	a/
Excise taxes	0.0	0.2	a/	a/	a/	a/
Total, Administrative Changes	0.0	3.0	1.9	0.7	0.7	0.9
Legislative Changes						
Individual income taxes, estimated payments	0.0	0.1	0.3	0.1	0.1	0.1
Corporation income taxes, estimated payments	0.0	1.4	3.4	1.4	0.6	0.6
Total, Legislative Changes	0.0	1.5	3.7	1.5	0.8	0.8
Total, Cash Management Proposals	0.0	4.5	5.6	2.2	1.4	1.6

SOURCE: Department of Treasury.

a/ Less than \$50 million.

TABLE 9. CBO PROJECTIONS OF SOCIAL SECURITY TRUST FUND REVENUES UNDER CURRENT LAW: BY FISCAL YEAR, IN BILLIONS OF DOLLARS

	1980	1981	1982	1983	1984	1985
OASDHI Revenues	136.9	158.8	184.1	209.9	237.1	275.9
Revenues Generated by 1981 Tax						
Increase <u>a/</u>	---	9.8	16.5	19.0	21.5	24.2

a/ These estimates do not take into account the additional revenues associated with an increase of 0.05 percent in the tax rate occurring in 1982 or the large rate jump of 0.35 percent in 1985.

increase. Alternatively, new sources of funding, such as revenues from an increased excise tax on gasoline or from the windfall profit tax, might be tapped. The former, if set at 50 cents a gallon with exemptions for commercial vehicles, could generate \$38.8 billion in fiscal year 1981 while the latter will produce between \$12.5 and \$13.5 billion in that year.

Accelerated Depreciation

In response to growing concern over lagging investment and productivity and the effects of inflation on business depreciation allowances, many bills were introduced in the 1979 congressional session to increase deductions for depreciation. The one that received the most discussion was the Jones-Conable "10-5-3" plan which would substantially shorten the time over which business assets may be written off for tax purposes. Reservations about the revenue cost of 10-5-3 have led the Congress to consider other investment incentives as well. The alternatives include modified versions of 10-5-3 as well as entirely different proposals. The first-year revenue loss from depreciation proposals ranges from as little as \$1 billion for an expansion of the Asset Depreciation Range system to as much as \$30 billion for replacing the current procedure for depreciation and investment tax credits (ITC) with an immediate payment equal to the present value of existing depreciation allowances. Some major possibilities are briefly described below. The estimated revenue losses for each plan are shown in Table 10.

TABLE 10. DIRECT REVENUE LOSSES FOR ALTERNATE DEPRECIATION POLICIES: BY FISCAL YEAR, IN BILLIONS OF DOLLARS a/

	1980	1981	1982	1983	1984	1985
10-5-3	1.7	6.5	14.8	27.3	42.4	58.5
Jorgenson <u>b/</u>	29.0	17.0	10.0	5.0	3.0	1.0
40 Percent ADR	1.0	2.0	3.0	4.0	4.0	5.0

SOURCE: Preliminary estimates, Congressional Budget Office and Joint Committee on Taxation.

- a/ These estimates assume 1980 enactment. They do not reflect the 20 to 30 percent offsetting revenue gain that accompanies any tax cut, nor do they reflect economic gains from higher levels of investment.
- b/ These estimates reflect the net revenue loss after eliminating the existing ITC as Jorgenson proposes.

10-5-3 (Jones-Conable). This plan would sharply speed up recovery of capital investment compared to present law. After a five-year phase-in, the plan would allow 10-year write-offs for structures, five-year write-offs for equipment and three-year write-offs for a small category of motor vehicles. The full ITC would be allowed for equipment depreciated over five years or longer. This proposal would heavily favor long-lived depreciable assets. Utility investment and commercial structures would receive the largest additional write-offs compared to existing depreciation rules. Because of the phase-in, the proposal produces small revenue losses initially (see Table 10). Subsequent losses are very large, however.

First-Year Write-Off of Present-Value Depreciation. Another proposal would provide owners of capital with a deduction equal to the entire present value of eventual depreciation at the time an investment is made. This present value method, suggested by economist Dale Jorgenson, calculates the present value of depreciation allowances based on interest rates and expected rates of decline in asset values. By providing a single up-front payment, the present value method insulates the real value of capital recovery allowances from unanticipated inflation over the life of the asset.

Expanded ADR. A third alternative would expand the present 20 percent Asset Depreciation Range (ADR) system to include write-offs over periods as much as 40 percent shorter than estimated economic lives. The 40 percent ADR would speed the recovery of capital investment as rough compensation for inflation.

Indexing the Individual Income Tax for Inflation

CBO projects that in fiscal year 1981 inflation will cause aggregate individual income tax liabilities to rise by \$10 billion. The progressivity of the income tax rate structure interacting with inflation, which pushes taxpayers into higher tax brackets, accounts for most of the increase in individual tax liabilities.

A tax change designed to offset the effects of inflation would reduce liabilities for low- and middle-income persons by proportionally greater amounts than for upper-income individuals. The dollar decrease in their liabilities, though, would be smaller.

Another way of offsetting the rise in tax liabilities, the Roth-Kemp proposal, would have different distributional effects than those achieved by an inflation-related cut. This approach would provide most income groups in the first year with roughly the same percentage reduction in their tax liability, again with greater dollar benefits for taxpayers with larger incomes. After three years, the Roth-Kemp proposal also would adjust a number of the provisions of the tax code for inflation. By 1985, the revenue loss from Roth-Kemp would rise to about \$175 billion, roughly \$57 billion more than necessary to offset the projected effects of inflation (see Table 11).

Tax Incentives for Personal Saving

Many proposals designed to increase the amount of savings and investment were introduced in the last session of Congress. The majority of these provide for an exemption of a given amount of interest and/or dividend income from taxation. The revenue loss for two of the most common plans is shown in Table 12.

TABLE 11. CUMULATIVE REVENUE EFFECTS FROM TWO INDIVIDUAL INCOME TAX PROPOSALS: BY FISCAL YEAR, IN BILLIONS OF DOLLARS

Proposal	1981	1982	1983	1984	1985
Indexing the Individual Income Tax for Inflation <u>a/</u>	-10.0	-24.0	-49.0	-80.0	-118.0
Roth-Kemp Proposal <u>b/</u>	-19.8	-52.4	-95.4	-136.4	-175.3

SOURCE: Congressional Budget Office and the Joint Committee on Taxation estimates.

- a/ Calculated as the difference between tax liabilities that would result if inflation did not increase effective tax rates as a percent of adjusted gross income and actual tax liabilities under current law.
- b/ Revenue figures assume January 1, 1981, effective date.

TABLE 12. REVENUE LOSS FROM TAX INCENTIVES FOR PERSONAL SAVINGS: BY FISCAL YEAR, IN MILLIONS OF DOLLARS a/

Proposal	1981	1982	1983	1984	1985
\$100/\$200 Exemption of Interest Income	171	1,241	1,307	1,374	1,341
\$200/\$400 Exemption of Interest and Dividend Income	314	2,275	2,410	2,552	2,508

SOURCE: Department of Treasury Tax Model, 1979 law at 1978 income levels.

- a/ Assumes January 1, 1981 effective date.

After a small incentive effect in the first year of enactment, the savings and/or investment increase arising from these exemption plans is virtually identical to that of a proportional across-the-board tax cut. The distribution of the tax reductions by income class is almost the same as well. Because most of the tax benefits will go to people who already earn sufficient interest and dividend income to qualify for the full exemption, the desired increase in investment is unlikely to occur and the effect on inflation and productivity will probably be negligible.

LIMITATIONS ON TAX EXPENDITURES

In addition to program outlays, the federal government provides subsidies and support through a variety of special provisions in the tax code. Like direct outlay entitlement programs, these "tax expenditures" often exceed original estimates of their expected budget cost because of unforeseen or unintended developments. The resulting revenue losses can reduce budget receipts below the levels projected by the President and the Congress. The problem of dealing with rising tax expenditures has led to suggestions that they be included in periodic reviews of all government programs--the so-called "sunset" proposals--or, alternatively, that they be included in a limitation of total government expenditures that is geared to a fixed percentage of GNP.

The rapid growth in the use of tax-exempt bonds to finance single-family housing illustrates how tax expenditures can increase without any change in the law. If current law is not changed, the revenue loss from these housing bonds could increase from \$0.5 billion in fiscal year 1980 to \$9.4 billion in fiscal year 1985, far above the levels anticipated a year ago.

Another example is the increase in the use of tax-exempt industrial development bonds (IDBs) to finance private industrial and commercial investments. In the past five years, the use of IDBs has flourished, more than doubling between 1978 and 1979 alone. A large share of IDB issues are never reported beyond the state or local level, so that both the volume of IDB sales and the resulting revenue losses have been consistently underestimated. A special CBO survey of state and local agencies indicates that revenue bond financing for industrial and commercial facilities, excluding pollution control bonds, reached a record high of \$7.7 billion in 1979, amounting to about 16 percent of all long-term tax-exempt bond financing for the year. If current law remains in effect, the revenue losses from industrial development bonds will rise to about \$1.6 billion in 1984, roughly 50 percent higher than the revenue loss estimated for that year in last year's tax expenditure budget.

CHAPTER III. SPENDING ESTIMATES AND PROPOSALS

Spending growth in fiscal year 1980 is now expected to accelerate sharply to 14.2 percent above the actual 1979 levels, largely because of higher inflation and interest rates and administrative actions in response to growing international tensions. The President's budget estimates total 1980 outlays at \$563.6 billion, an increase of \$16 billion above the ceiling of \$547.6 billion in the Second Concurrent Resolution on the Budget for Fiscal Year 1980 (see Table 13). It appears likely that the Congress will have to adjust the second budget resolution spending ceilings for 1980 in order to accommodate supplemental appropriations for certain mandatory entitlement programs and the cost of the October 1979 federal pay raises. The ceilings would have to be raised even further to accommodate various Administration supplemental requests for other programs.

TABLE 13. TOTAL FEDERAL SPENDING FOR FISCAL YEARS 1980 AND 1981: BY FISCAL YEAR, IN BILLIONS OF DOLLARS

	1980 Estimates			1981 Estimates		
	2nd Con. Res.	Pres. Latest Request	CBO Estimate of Pres. Request a/	CBO Baseline Projection	Pres. Budget Request	CBO Estimate of Pres. Request a/
Budget Authority	638.0	654.0	654.8	674.7	696.1	697.2
Outlays	547.6	563.6	563.0	618.9	615.8	622.9

a/ Preliminary, subject to change.

The President's budget for fiscal year 1981 proposes to keep the growth in total spending essentially equal to the expected rate of inflation, which both the Administration and CBO forecast to be about 9 percent during fiscal year 1981. The 1981 budget estimates total outlays at \$615.8 billion, an increase of 9.3 percent above the estimated 1980 level. The

President recommends real growth in spending for defense, energy, and a few other programs. Benefit payments for individuals, such as Social Security and federal employee retirement benefits, are projected to grow by over 13 percent in 1981 as the result of inflation and population growth. Increased spending in other federal programs would be offset largely by reduced outlays for farm price supports and unusually high level of sales of federal assets.

This chapter provides an overview of the Administration's spending estimates and proposals for both 1980 and 1981, with comparisons to the spending estimates contained in the second budget resolution for 1980 and the latest CBO spending estimates and projections. The chapter begins with a discussion of the new 1980 spending estimates and requests for supplemental appropriations, provides some historical perspectives on the 1981 budget proposals, and then discusses the major policy changes recommended by the President. The chapter also includes a discussion of off-budget federal entities, the public debt limit, and the Administration's proposals to control federal credit activities, a major new budgeting innovation that is receiving increased attention in the Congress. Chapter IV provides further details and evaluations of the President's spending proposals and estimates within each major functional category. Chapter V discusses the outlook for the federal budgets for fiscal years 1982 to 1985.

FISCAL YEAR 1980 ESTIMATES AND PROPOSALS

The President's 1981 budget presents new spending estimates for fiscal year 1980 that indicate the 1980 second budget resolution spending ceilings will be exceeded by a wide margin, largely because of events beyond the control of Congress.

The Administration is now requesting \$654.0 billion in new budget authority and \$563.6 billion in outlays for fiscal year 1980. These requests exceed the second concurrent resolution ceilings approved on November 8 by \$16 billion for both budget authority and outlays. The increased outlays in 1980 can be attributed to higher interest costs (\$5 billion), higher inflation (\$2 to \$3 billion), higher farm price supports resulting from the recent grain embargo (\$2 billion), lower asset sales of federally held mortgages and loans (\$2 billion), Congressional inaction on various legislative cost reduction proposals such as hospital cost containment (\$2 to \$3 billion), and various new spending proposals not assumed for the resolution (\$1 to \$2 billion).

CBO's preliminary review of the Administration's latest budget estimates for 1980, using CBO's most recent economic forecast and estimating methodology, indicates that the estimates for total spending in 1980 are reasonable. CBO's analysis suggests that there are some estimating differences for individual programs, but their net effect on total spending will be quite small.

President's Latest Request

The President's latest request and the second resolution are compared by budget function category in Table 14. The principal differences are discussed in the following paragraphs, together with CBO's preliminary evaluation of the Administration's spending estimates.

National Defense (Function 050). The President's latest outlay estimate for national defense programs exceeds the second resolution level by \$0.5 billion. The resolution assumed that there would be some absorption of the October 1979 pay raise, but the defense pay supplemental request provides for little absorption. Preliminary analysis of the Administration's latest spending estimates indicates that defense outlays in 1980 could be underestimated by about \$1.3 billion, primarily for procurement activities based on recent spending patterns. In addition, the Administration has indicated that increased fuel costs could require additional funds to maintain defense operations. A later supplemental request is anticipated for as much as \$3.5 billion in budget authority (\$2.5 billion in outlays).

International Affairs (Function 150). The President's latest budget request exceeds the second resolution outlay estimate by \$2.0 billion, largely because of administrative actions to reduce the balances in the foreign military sales (FMS) trust fund. The January budget estimates that payments to contractors from the fund will exceed receipts from foreign governments by \$1.2 billion; the second resolution estimate assumed that trust fund receipts would exceed outlays by \$300 million. The trust fund already shows a net deficit of \$1.2 billion at the end of the first quarter of the fiscal year. CBO's preliminary analysis of the budget indicates that the net budget authority estimated for the FMS trust fund is too low by \$3.1 billion, because of lower estimated receipts (\$600 million) and higher estimated obligations (\$2.5 billion).

General Science, Space and Technology (Function 250). The Administration is requesting a \$300 million supplemental for the space shuttle that was not assumed for the second resolution.

Energy (Function 270). The President's latest request exceeds the second resolution by \$1.9 billion in budget authority and over \$400 million in outlays, largely because of lower than expected uranium enrichment revenues, higher operating costs, and a change in the budgetary treatment for these activities. In addition, the Administration is proposing a number of 1980 supplements for various energy programs. CBO's preliminary review of the latest budget estimates indicates that both budget authority and outlays are overstated by \$1.1 billion because of expected higher offsetting receipts from Naval Petroleum Reserve oil sales.

TABLE 14. PRESIDENT'S LATEST REQUEST COMPARED TO SECOND CONCURRENT RESOLUTION FOR FISCAL YEAR 1980: IN BILLIONS OF DOLLARS

Function	Second Concurrent Resolution	President's Latest Request	Difference <u>a/</u>
National Defense (050)			
Budget authority	141.2	141.6	0.4
Outlays	129.9	130.4	0.5
International Affairs (150)			
Budget authority	13.1	13.0	0.1
Outlays	8.4	10.4	2.0
General Science, Space, and Technology (250)			
Budget authority	5.85	6.1	0.3
Outlays	5.7	5.9	0.2
Energy (270)			
Budget authority	39.5	41.4	2.0
Outlays	7.25	7.7	0.5
Natural Resources and Environment (300)			
Budget authority	12.6	12.5	0.1
Outlays	11.9	12.6	0.7
Agriculture (350)			
Budget authority	5.0	5.0	*
Outlays	2.55	4.6	2.1
Commerce and Housing Credit (370)			
Budget authority	6.8	10.1	3.3
Outlays	2.85	5.4	2.6
Transportation (400)			
Budget authority	19.5	20.9	1.4
Outlays	18.6	19.5	1.0
Community and Regional Development (450)			
Budget authority	8.9	9.1	0.2
Outlays	8.35	8.5	0.1
Education, Training, Employment and Social Services (500)			
Budget authority	30.9	31.2	0.3
Outlays	31.0	30.6	-0.4

TABLE 14. (Continued)

Function		Second Concurrent Resolution	President's Latest Request	Difference <u>a/</u>
Health (550)				
Budget authority	58.8	60.0	1.2	
Outlays	54.45	56.6	2.1	
Income Security(600)				
Budget authority	218.5	222.1	3.6	
Outlays	190.0	190.9	0.9	
Veterans' Benefits and Services (700)				
Budget authority	21.45	21.0	-0.5	
Outlays	20.8	20.6	0.2	
Administration of Justice(750)				
Budget authority	4.2	4.3	0.1	
Outlays	4.4	4.4	*	
General Government (800)				
Budget authority	4.45	4.6	0.2	
Outlays	4.2	4.6	0.4	
General Purpose Fiscal Assistance (850)				
Budget authority	9.05	8.7	-0.3	
Outlays	9.05	8.7	-0.4	
Interest (900)				
Budget authority	58.1	63.3	5.2	
Outlays	58.1	63.3	5.2	
Allowances (920)				
Budget authority	-0.2	1.4	1.6	
Outlays	-0.2	1.3	1.5	
Undistributed Offsetting Receipts				
Budget authority	-19.7	-22.3	-2.6	
Outlays	<u>-19.7</u>	<u>-22.3</u>	<u>-2.6</u>	
Totals				
Budget authority	638.0	654.0	16.0	
Outlays	547.6	563.6	16.0	

* Less than \$50 million.

a/ Adjusted to include civilian agency pay supplementals in the allowances function (920).

Natural Resources and Environment (Function 300). The President's latest request exceeds the second resolution assumptions by less than \$100 million in budget authority but \$700 million in outlays, largely because of a higher outlay estimate for EPA grants for construction of municipal waste treatment facilities.

Agriculture (Function 350). The Administration's latest request assumes that CCC farm price supports will cost \$2.1 billion more in 1980 than assumed for the second resolution, largely because of the actions announced on January 4 to embargo grain shipments to the Soviet Union. CBO's preliminary analysis indicates that outlays for farm price supports in 1980 could be higher than estimated by the Administration by over \$600 million.

Commerce and Housing Credit (Function 370). The President's latest request exceeds the second resolution by \$3.4 billion in budget authority and \$2.6 billion in outlays, largely because of financial management decisions by the Administration to delay sales of federally held mortgages and loan assets until 1981 because of current market conditions. These financial assets are sold to private investors and to the Federal Financing Bank. Since the proceeds from asset sales offset both budget authority and outlays, the decision to postpone sales greatly increases spending authority needs and outlays in 1980 with corresponding reductions in 1981.

Transportation (Function 400). The President's latest request exceeds the second resolution estimates by \$1.5 billion in budget authority and \$1.0 billion in outlays, largely as a result of proposed energy initiatives for public transportation capital investment and auto-use management (\$1.3 billion in budget authority and \$100 million in outlays) and higher outlay estimates for federal highway, railroad, ocean shipping, and airways and airport programs (\$900 million).

Community and Regional Development (Function 450). The latest budget estimates for this function are only slightly higher than the second resolution levels. CBO's preliminary analysis, however, indicates that 1980 outlays could be over \$500 million higher than estimated by the Administration for community and development programs, and for disaster relief programs, based on recent spending patterns.

Education, Training, Employment, and Social Services (Function 500). The President's latest budget estimates exceed the second resolution budget authority level by \$300 million but show lower 1980 outlays. Increased budget authority funds are required for student loan insurance, but outlays for Department of Labor employment and training programs will be lower than expected.

Health (Function 550). The President's latest request exceeds the second resolution estimates by \$1.2 billion in budget authority and \$2.1 billion in outlays, largely because of higher costs for Medicare and Medicaid resulting from inflation and fewer savings than expected from actions to reduce waste, fraud and abuse.

Income Security (Function 600). The President's latest request exceeds the second resolution assumptions by \$3.6 billion in budget authority and over \$900 million in outlays, largely as a result of higher inflation. The Administration's latest estimates, for example, assume that the Consumer Price Index (CPI) will increase by over 11 percent during fiscal year 1980, compared to an increase of less than 9 percent assumed for the second resolution.

Veterans' Benefits and Services (Function 700). The latest Administration budget estimates indicate that fewer funds will be needed in 1980 for veterans' pension benefits than were assumed for the second resolution.

Interest (Function 900). The President's latest request exceeds the second resolution by \$5.2 billion in both budget authority and outlays, primarily because of higher interest rates. The President's latest request, for example, assumes that short-term interest rates for Treasury bills will average 11.1 percent during fiscal year 1980 compared to 8.3 percent assumed for the second resolution. Another contributing factor is the higher 1980 budget deficit assumed by the Administration--\$10 billion above the resolution estimate of \$29.8 billion.

Allowances (Function 920). The Administration's request for 1980 pay supplementals for civilian agencies is higher than assumed for the second resolution. In addition, the resolution assumed spending reductions for the elimination of waste, fraud, and abuse in certain HEW programs and savings in government travel. The Administration included any effects of these reductions in other budget function categories.

Undistributed Offsetting Receipts (Function 950). The President's latest request estimates 1980 receipts from the sale of new oil and gas leases on the Outer Continental Shelf (OCS) and rents and royalties on existing leases at \$4.8 billion, compared to \$2.4 billion assumed for the second resolution. Since these receipts are recorded in the budget as negative entries, the Administration's higher estimate lowers budget authority and outlays by \$2.4 billion. There are minor estimating differences for other offsetting receipts in this function which lower budget authority and outlays by another \$150 million.

Proposed 1980 Supplemental Appropriations and New Spending Initiatives

The President's 1981 budget includes requests for 1980 supplemental totalling \$35.7 billion in net new budget authority. About one quarter of the requests (\$8.8 billion) are for entitlement programs and other mandatory items subject to further appropriation action. The major items included in this category are proposed supplementals for the costs of the October 1, 1979, seven percent federal pay raise (\$4.0 billion) and additional funds for the Medicaid program (\$2.3 billion).

The Administration is also requesting supplemental appropriations for the food stamp program (\$2.6 billion to pay the full program costs providing the authorization ceiling is lifted or removed), defense operations (\$0.9 billion), economic development assistance (\$0.6 billion) and \$2.4 billion for a variety of other existing programs. In addition, the budget includes estimates for supplemental funds of \$20.7 billion for proposed legislation not yet approved by the Congress. As shown in Table 15, most of these funds are for new energy programs (\$19.6 billion). The Congress has already appropriated \$20 billion for the production of synthetic fuels, including the \$17.8 billion requested by the Administration for loans to the proposed Energy Security Corporation. The Appropriations Committees limited the obligation of these funds to \$2.2 billion without further Congressional approval.

PERSPECTIVES ON THE 1981 BUDGET

Most of the federal spending for fiscal year 1981 will result from decisions already made in previous years. Of the \$615.8 billion in outlays estimated in the President's budget for 1981, about \$445 billion (or 72 percent) will result from prior-year legislative actions. This includes outlays from social insurance and other trust funds (almost \$230 billion), permanent appropriations for such items as interest on the public debt (over \$90 billion), spending from prior-year appropriations (over \$120 billion), and appropriations for various entitlement programs such as medicaid, retired pay for military personnel, and veterans' compensation and pension programs over which the Appropriations Committees have little or no control (about \$70 billion). These outlays are partially offset by proprietary receipts from the sale of offshore oil and gas leases and other products and property (\$25 billion) and intragovernmental transactions not requiring current action (over \$40 billion).

Only the remaining \$170 billion in requested outlays will depend on new Congressional decisions made during the appropriations process for fiscal year 1981. The largest items in the President's budget cover personnel costs for federal civilian and military employees (about \$85 billion) and defense operations and investment (about \$45 billion).

TABLE 15. PROPOSED SUPPLEMENTS AND NEW SPENDING INITIATIVES FOR FISCAL YEAR 1980: BUDGET AUTHORITY IN MILLIONS OF DOLLARS

Item	President's Latest Request
Entitlement Authority and Other Mandatory Items Subject to Further Appropriation Action	
Military and civilian pay raises	4,049
Grants to states for medicaid	2,289
Student loan insurance	662
Retired pay, defense	529
Black lung disability trust fund	494
Advances to unemployment trust fund	455
Payment to civil service retirement	377
Child nutrition programs	337
Social services grants	236
Assistance payments	80
Veterans compensation	55
All other	67
Subtotal, gross	<u>9,630</u>
Offsetting receipts	-801
Subtotal, net	<u>8,829</u>
Other Supplements Under Existing Legislation	
Defense personnel and operations and maintenance	878
Disaster relief	314
Uranium enrichment	308
All other	469
Subtotal	<u>1,969</u>
Supplements Requiring Additional Authorizing Legislation	
Food stamp program	2,556
NASA R&D (space flight)	300
Security supporting assistance	100
All other	504
Subtotal	<u>3,460</u>
Supplemental Requests Pending	
Economic development assistance	567
Other	349
Subtotal	<u>916</u>
Proposed rescissions	-122
Proposed for Later Transmittal Under Proposed Legislation	
Loans to Energy Security Corporation	17,792
Other energy programs	1,842
Economic development assistance programs	567
Grants to states for social services and child welfare	438
Targeted and antirecession fiscal assistance	375
Other	-322
Subtotal	<u>20,692</u>
Total	35,744

Effects of Inflation

Almost all of the increased spending between 1980 and 1981 in the President's budget can be attributed to the effects of inflation. Total spending in real terms is projected by the Administration to grow by less than \$1 billion. As shown in Table 16, real growth in spending for national defense and payments for individuals is projected to be offset by real declines for net interest costs and other federal programs. Major factors contributing to the projected real decline in other federal programs are lower spending for farm price supports and large asset sales of mortgages purchased by GNMA and Farmers Home Administration loans.

TABLE 16. GROWTH IN BUDGET OUTLAYS BETWEEN FISCAL YEARS 1980 AND 1981 IN CURRENT AND CONSTANT (1972) DOLLARS: IN BILLIONS OF DOLLARS

Major Category	Latest Admin. Estimate 1980	Estimated Growth in 1981	
		Current Dollars	Constant (1972) Dollars
National Defense	130.4	15.8	2.5
Payments for Individuals	266.9	35.7	4.7
Net Interest	51.8	2.4	-1.0
All Other	114.6	-1.9	-5.8
Total	563.6	52.2	0.5

SOURCE: The Budget of the United States Government, Fiscal Year 1981, Table 22, p. 613.

Payments for Individuals and National Defense

The major projected spending increases in 1981 over 1980 are for payments for individuals and national defense. Payments for individuals provide benefits in cash or in-kind to individuals or families. They include social security and railroad retirement benefits, federal employees retirement and insurance, unemployment compensation, Medicare and Medicaid, subsidized housing assistance, assistance to students, food and nutrition assistance, and welfare programs. These income transfers or income

support payments account for over two-thirds of the projected increase in spending between 1980 and 1981 in the President's budget. Payments for individuals constitute a growing share of the federal budget. As shown in Table 17, these payments accounted for 30 percent of total outlays in 1969. By 1979, their share had increased to 46 percent, and it is projected in the President's budget to grow to 49 percent by 1981.

The growth in payments for individuals has exceeded the growth of the economy during the last ten years and is projected by the President's budget to continue this trend in 1980 and 1981. Outlays for payments for individuals as a percent of the Gross National Product (GNP), the most widely used measure of the economy, have risen from 6.1 percent in 1969 to 9.8 percent in 1979 and are projected to increase to 10.9 percent by 1981 (see Table 17).

In contrast, spending for national defense has fallen as a share of the total budget and a percent of GNP from its 1969 level. Over the past four years, however, real defense outlays have been increasing. The proposed spending increases for national defense in 1981, will continue this real growth and increase its ratio to GNP from 5.1 percent in 1979 to an estimated 5.3 percent in 1981.

Annual Competition for Funds

The Appropriations Committees consistently have been able to reduce the funding for discretionary programs below the levels requested by the President. But the growth in indexed benefits and other mandatory entitlements 1/ has allowed an increasing share of the federal budget to escape the annual competition with other programs for federal dollars.

1/ Entitlement authority is defined by the Congressional Budget Act as spending authority "to make payments, including loans and grants, the budget authority for which is not provided for in advance by appropriation acts, to any person or government if, under the provisions of the law containing such authority, the United States is obligated to make such payments to persons or governments who meet the requirements established by such law."

TABLE 17. COMPOSITION OF FEDERAL OUTLAYS: BY FISCAL YEAR

Major Category	Actual		Admin. Estimate		
	1969	1974	1979	1980	1981
In Billions of Dollars					
National Defense	79	78	118	130	146
Payments for Individuals	55	117	228	267	303
Net Interest	13	21	43	52	54
All Other	37	53	106	115	113
Total	185	270	494	564	616
Percent Distribution					
National Defense	43	29	24	23	24
Payments for Individuals	30	44	46	47	49
Net Interest	7	8	9	9	9
All Other	20	20	21	20	18
Total	100	100	100	100	100
As a Percent of GNP					
National Defense	8.8	5.7	5.1	5.2	5.3
Payments for Individuals	6.1	8.6	9.8	10.6	10.9
Net Interest	1.4	1.6	1.8	2.1	2.0
All Other	4.1	3.9	4.5	4.5	4.1
Total	20.4	19.8	21.3	22.4	22.3

SOURCE: The Budget of the United States Government, Fiscal Year 1981, Tables 21 and 22, pp. 612-613.

Table 18 shows the distribution of federal budget outlays that are subject to annual review by the Appropriations Committees, and those that fall under the jurisdiction of other committees, primarily House Ways and Means and Senate Finance. Two basic trends emerge from the table. First, the relative share of federal outlays subject to annual appropriations review (net of certain offsetting receipts) has fallen from 71 percent in 1969 to 59 percent in 1979. Second, the relative importance of indexed benefits and other mandatory entitlements that are annually appropriated but otherwise not subject to control by the Appropriations Committees has increased from 8 percent in 1969 to 13 percent in 1979.

TABLE 18. DISTRIBUTION OF FEDERAL OUTLAYS BY COMMITTEE JURISDICTION: BY FISCAL YEAR a/

	Actual		Adm. Estimate		
	1969	1974	1979	1980	1981
In Billions of Dollars					
Appropriations	131	172	290	326	358
Indexed benefits and other mandatory entitlements	15	35	63	73	80
All other	116	137	227	253	278
Other Committees	<u>53</u>	<u>98</u>	<u>203</u>	<u>237</u>	<u>258</u>
Total Outlays	185	270	494	564	616
Percent Distribution					
Appropriations	71	64	59	58	58
Indexed benefits and other mandatory entitlements	8	13	13	13	13
All other	63	51	46	45	45
Other Committees	<u>29</u>	<u>36</u>	<u>41</u>	<u>42</u>	<u>42</u>
Total Outlays	100	100	100	100	100

a/ Committee outlay figures are net of offsetting receipts (proprietary receipts and intragovernmental transfers).

As a result of these two basic trends, the relative control over federal outlays that can be exerted through the annual appropriations process has fallen sharply during the past ten years. In fiscal year 1969, the Appropriations Committee could exert control on 63 percent of federal outlays. By 1979, this control had fallen to 46 percent. This reduction in effective control has greatly increased the annual competition for funds among federal programs that are neither indexed for inflation nor mandatory entitlements.

If the growth of federal spending is to be reduced below the rates experienced during the past ten years, savings will have to be achieved in all areas of the budget, including the growing portion of the budget represented by indexed benefits and other mandatory entitlements. The ability of the Appropriations Committees to control federal spending is diminishing, so that other committees will have to play a greater role in achieving budgetary savings.

Indexed Benefit Payments

Automatic indexing has become a matter of particular concern recently, as the inflation rate has moved into double digits. Both the Congress and the public have called for a reduction in the growth of federal spending. The outlay increases that, for some programs, automatically follow double-digit inflation, however, probably will result in real declines in annually appropriated discretionary programs, or will continue to frustrate the achievement of a smaller federal sector.

In 1969, only a small part of the federal budget was indexed for inflation. During the 1960s, the inflation rate averaged 3 percent per year, and adjustments could wait two or more years without a serious deterioration in the real value of benefits. As the inflation rate accelerated in the late 1960s and the 1970s, Social Security and other programs were changed so that they would respond automatically to increases in the cost of living. At the present time, 30 percent of total federal spending is indexed - directly for inflation. The President's budget estimates that this share will rise to 32 percent in 1981. The major indexed benefit programs are shown in Table 19.

Benefits in certain other entitlement programs, while not directly tied to a particular index, tend to rise automatically with inflation. This is the case for those income security programs in which the benefit level is set by the individual states--such as unemployment insurance and aid to families with dependent children (AFDC). The cost of providing benefits in the Medicare and Medicaid programs rises with inflation as well, since it is the level of services, not a fixed dollar amount of services, that is guaranteed to eligible beneficiaries. Outlays for these four programs in 1979 accounted

for 12 percent of total outlays. Together with directly indexed benefits, payments for individuals that respond more-or-less automatically to inflation are estimated in the President's budget to account for about 45 percent of total budget outlays in fiscal year 1981.

TABLE 19. FEDERAL BENEFIT PROGRAMS INDEXED TO THE CONSUMER PRICE INDEX: BY FISCAL YEAR, OUTLAYS IN BILLIONS OF DOLLARS

Program	When Indexed a/	Frequency of Adjustment	1979 Actual	1981 President's Budget Request
Social Security	1976	Annual	102.6	136.9
Railroad Retirement	1975	Annual	4.3	5.2
Supplemental Security Income	1974	Annual	5.5	6.9
Veterans' Pensions	1979	Annual	3.5	4.0
Food Stamps	1974	Semiannual	6.8	9.7
Child Nutrition b/	1974	Annual	2.9	3.8
Civil Service Retirement	1963	Semiannual	12.4	16.9
Military Retirement	1965	Semiannual	10.3	13.5
Other Selected Retirement and Disability Programs b/		Semiannual	0.5	0.9

a/ The first year when indexation became effective.

b/ Includes Department of Labor special benefits (workman's compensation), Coast Guard retired pay, Foreign Service retirement, Public Health Service officer's retirement, and contributions for annuity benefits for certain members of the Secret Service.

The purpose of direct indexing is to protect the purchasing power of the federal benefit payments during periods of inflation. Benefits from indexed programs represent a substantial source of income to many of the recipients, who tend to be either retired or disabled persons (and their families) or low-income individuals. Other sources of income for these recipients are not typically adjusted for inflation (such as private pensions) or are imperfectly adjusted (such as interest on savings accounts). Because

of old age, disability, and other limitations, these recipients may find it difficult to supplement their income with earnings.

An additional concern is that automatic indexing of the budget may itself contribute to inflation. The direct and indirect indexing provisions that cover almost 90 percent of federal benefit payments for individuals may reinforce inflation and serve as an example to the private sector. Also, if the economy is operating at full capacity, the extra spending may either provide unnecessary extra fiscal stimulus or make attempts at fiscal restraint very difficult to implement. Finally, indexing may help create imbalances in the composition of spending by increasing transfer payments at the expense of purchases, investment, or research. In the long run, this may aggravate productivity and inflation problems.

Although automatic indexing has removed all flexibility in the timing and amount of the cost-of-living adjustments, it may not have resulted in greater federal spending than otherwise would have occurred. For example, prior to the introduction of automatic indexing, Social Security benefits were adjusted through periodic legislation. Since the start of automatic indexing in July 1975, no major social security increases have been approved beyond the cost-of-living adjustment.

FISCAL YEAR 1981 ESTIMATES AND PROPOSALS

The President's 1981 budget proposes to hold total spending close to the 1980 current law levels adjusted for expected inflation, population growth, and other increased costs resulting from previous policy decisions. Total outlays in 1981 would be about \$4 billion above the level projected by the Administration in its current services estimates. After adjusting the Administration's spending estimates for differences in the CBO economic forecast and estimating methods, the President's proposed 1981 outlays would also be \$4 billion above CBO's baseline projections of current law spending policies.

The major spending initiative in the President's budget is increased new budget authority for defense programs of about 5 percent in real terms, and continued real growth in 1982 and 1983. The increased defense funds are to help preserve strategic deterrence, improve the combat effectiveness and readiness of U.S. NATO forces, and enhance U.S. capability to deter conflict worldwide through the rapid deployment of forces. The Administration estimates that these increases would result in real growth of over 3 percent in defense spending in 1981, in keeping with the U.S. commitment to NATO allies. The focus of debate on real growth in defense spending for 1980 was in terms of budget outlays; for 1981, it has shifted to budget authority.

New Authorizing Legislation

A number of other new spending initiatives in the President's budget will require new authorizing legislation. The major items include the following proposals.

Energy Programs. The President's budget includes \$1.5 billion in budget authority (\$0.6 billion in outlays) to support energy-related transportation initiatives, including public transportation capital investment, auto-use management, fuel economy standards improvement, and basic automotive research. Funds are also included for these purposes in the 1980 budget estimates. New authority is sought to expand the low-income energy assistance programs begun in 1980 to alleviate the effects of rising fuel costs on low-income families (\$2.4 billion in both budget authority and outlays in the income security function). Legislation is also proposed to aid states and communities adversely affected by new energy resource development (\$150 million in budget authority) and to provide local grants to encourage energy conservation (\$152 million in budget authority). Direct loan subsidies would be provided to lenders through a proposed Solar Energy and Conservation Bank to encourage energy conservation and the installation of solar heating equipment (\$50 million in budget authority).

Youth Education, Training, and Employment. The major new domestic program in the President's 1981 budget is an increase in youth programs. The budget requests \$900 billion for Department of Education grants to assist secondary schools to provide compensatory education in basic literacy and arithmetic skills to educationally disadvantaged youth, and a consolidation and a \$1.1 billion expansion of three Department of Labor youth training and employment programs, which emphasize training and basic skills acquisition for older, youth who are both disadvantaged and out of school.

General Purpose Fiscal Assistance. The 1981 budget includes \$1.0 billion in budget authority and outlays for a new countercyclical fiscal assistance program, which would trigger grants to states and localities when the national unemployment rate reaches 6.5 percent. The Administration supports legislation authorizing a highly targeted, one-year fiscal assistance program for 1980. The Administration also is proposing a five-year reauthorization of general revenue sharing at 1980 levels (\$6.9 billion).

Student Loan Fund. The Administration has proposed legislation to establish a new program of basic direct loans and supplemental guarantees to assist postsecondary education students. This program would replace existing direct and guaranteed student loan programs. The 1981 budget includes \$545 million in budget authority for this purpose.

Veterans' Benefits. The 1981 budget includes \$923 million in budget authority for a 13 percent cost-of-living increase in compensation benefits, effective October 1980. Funds are also included to provide for a 10 percent increase in veterans' G.I. bill benefits and a two-year extension of the ten-year eligibility period for needy and educationally disadvantaged Vietnam-era veterans.

Medicare and Medicaid. The 1981 budget includes \$400 million in budget authority and outlays for a child health assurance program (CHAP) to extend medicaid coverage to over two million low-income children and over 100,000 low-income pregnant women. The budget also includes an additional \$166 million in outlays for various Medicare and Medicaid program expansions.

Refugee Assistance. The 1981 budget includes \$511 million for grants to states and localities to reimburse them for welfare costs and other services provided to new refugees.

Social and Child Welfare Services. Legislation has been proposed to increase the limits on federal grants for social services under Title XX of the Social Security Act to a total of \$2.9 billion, beginning in 1980. This proposal would make permanent the \$200 million increase in the regular ceiling enacted for 1979. The \$200 million special child day-care set-aside enacted for 1979 would be extended through 1981.

International Grain Reserve. The 1981 budget includes \$359 million in outlays for CCC purchases of grain for a proposed food security reserve.

Proposed Legislative Savings and Budget Reductions

The President's budget also proposes a number of reductions in federal spending in 1981, many of which would require changes in existing law. The most prominent of the legislative savings proposals 2/ are hospital cost containment and federal employee compensation reform, which the Administration estimates would together save \$3.5 billion in outlays in 1981. Other legislative savings proposals, totaling another \$2.1 billion in estimated outlays reductions, include targeting of child nutrition and special milk program subsidies to the most needy, reimbursement by health insurers for certain medical care given to insured veterans in VA medical facilities, and various changes in the Medicare and Medicaid programs. These legislative savings, which are shown in Table 20, have been proposed in previous budgets but have not yet been approved by the Congress.

2/ Legislative savings is a term denoting changes to existing law to achieve reductions in otherwise mandated spending.

TABLE 20. ESTIMATED OUTLAY SAVINGS FROM ADMINISTRATION LEGISLATIVE PROPOSALS: BY FISCAL YEAR, IN MILLIONS OF DOLLARS

	1980	1981	1982	1983
Health Programs				
Hospital cost containment	-780	-1,620	-2,390	
Revision to make Medicare benefits for the working aged supplementary to private insurance	-170	-260	-295	
Elimination of bonus to hospitals for provision of routine nursing services to Medicare beneficiaries	-191	-245	-305	
Limitation on payments to hospitals to the nursing home rate for long-term care services	-20	-30	-35	
Implementation of joint audit for Medicare and Medicaid	-32	-32	-32	
Establishment of financial penalties to deter abuse of Medicare and Medicaid programs	-23	-23	-23	
Competitive bid purchasing for equipment and services	-12	-18	-24	
Other health care cost control proposals	-69	-90	-97	
Total, health programs	—	-1,297	-2,318	-3,201
Federal Compensation Reform				
Department of Defense, Military	-1,712	-2,015	-2,177	
Civilian agencies and programs	-1,016	-1,184	-1,302	
Total, Federal compensation reform	—	-2,728	-3,199	-3,479
Income Security Programs				
Disability insurance reforms, including revision of benefit computations, increased work incentives, improved administration, and other changes	-16	-69	-217	-430
State financial liability for errors in food stamp program administration	-186	-206	-214	
Targeting of child nutrition and special milk program subsidies to the most needy	-432	-478	-513	
Changes to the aid to families with dependent children (AFDC) program and related programs to simplify eligibility and administration, reduce fraud and abuse; and improve the child support enforcement program	-79	-249	-181	-164
Reform of the railroad retirement program to restore the solvency of the railroad industry pension fund	—	-70	-102	-136
Total, income security programs	-95	-1,006	-1,184	-1,457
Veterans' Benefits and Services				
Elimination of GI bill benefits for correspondence courses and general flight training	-56	-48	-41	
Elimination of certain dental benefits	-32	-30	-28	
Reimbursement by health insurers for certain medical care given insured veterans	-45	-321	-365	-362
Total, veterans' benefits and services	-45	-409	-442	-431
Increase in sales from the federal strategic and critical materials stockpile to adjust the inventory to current requirements	-178	-203	-203	-203
Total, savings	-318	-5,643	-7,346	-8,771

In addition to these legislative savings proposals, the President's 1981 budget contains a number of outlay reductions to be achieved through the appropriations process and by administrative actions. For example, the budget proposes to limit impact aid payments to \$519 million in 1981, over \$350 million in budget authority below the 1980 program level adjusted for inflation. The Administration also proposes to substitute loan guarantees for direct lending under the Commodity Credit Corporation short-term export credit program, which the budget assumes would reduce outlays by \$0.8 billion. Administrative changes in allowable reimbursements for hospitals and hospital-based physicians and other administrative actions are estimated to reduce Medicare and Medicaid outlays by \$0.4 billion. The details on these and other proposals are discussed in Chapter IV.

Asset Sales

The President's budget assumes that there will be higher asset sales of government-held mortgages and loans in 1981 than in 1980, resulting in an estimated outlay reduction of \$5.6 billion below 1980 levels. The outlay levels for the public enterprise funds operated by the Farmers Home Administration, Federal Housing Administration, Government National Mortgage Association, and Veterans Administration are largely determined by administrative decisions regarding the sale of assets to the private sector or the Federal Financing Bank (FFB), an off-budget agency. The budget impact of these asset sales is difficult to predict because their timing and volume are a function of market conditions and management decisions. Consequently, the practice of CBO and the Budget Committees generally is to use the Administration outlay estimates for these funds.

The asset sales assumed for 1981 by the Administration are quite large and may not occur at the projected levels. This could result in understating 1981 outlay levels by several billions of dollars. For example, estimated outlays in 1980 for the funds shown in Table 21 are \$2.3 billion higher than was assumed for the second budget resolution, because asset sales originally planned for 1980 are being postponed until 1981. In estimating these net budget outlays, swings of this magnitude are not unusual during a fiscal year.

CBO Preliminary Reestimates

CBO's preliminary review of the 1981 budget estimates suggests that outlays could be about \$7 billion higher than projected by the Administration, if all of the President's spending proposals were approved by the Congress and the CBO economic forecast proves accurate. If the Administration's legislative savings proposals are not approved by the Congress, 1981 outlays could be increased by another \$5 billion. Also, the budget does not include the impact of increased fuel costs on defense operations which

TABLE 21. ESTIMATED NET OUTLAYS FOR SELECTED PUBLIC ENTERPRISE FUNDS: BY FISCAL YEAR, IN MILLIONS OF DOLLARS

Selected Funds	1980	1981	Change
Farmers Home Administration			
Agricultural credit insurance fund	1,802	-962	-2,763
Rural housing insurance fund	238	-1,020	-1,259
Rural development insurance fund	90	200	110
Federal Housing Administration Fund	148	-70	-219
Government National Mortgage Association			
Special assistance functions fund	659	180	-479
Emergency mortgage purchase assistance	490	-424	-914
Veterans Administration			
Loan guaranty and direct loan revolving funds	-206	-302	-96
Total	3,221	-2,398	-5,620

could add another \$4 billion in 1981. Finally, if the large asset sales planned for 1981 do not occur to the extent estimated, budget outlays could be increased by a further \$2 to \$3 billion.

CBO forecasts somewhat higher unemployment rates during fiscal year 1981 which could add over \$3 billion to budget outlays for unemployment compensation and food stamps. On the other hand, CBO forecasts somewhat lower interest rates during 1981 that would have the effect of lowering net interest costs by \$1.4 billion. CBO also expects that the cost-of-living adjustments for federal employee retirement programs will be somewhat less than assumed by the Administration, which would lower the estimated outlays by about \$0.5 billion. In addition, CBO's higher real wage forecast for 1981 is estimated to result in lower Social Security outlays of \$0.6 billion as a result of fewer new beneficiaries. Thus, the net effect of the differences in the Administration and CBO economic assumptions for 1981 outlays is quite small.

Other estimating differences between the Administration and CBO, however, are larger in dollar terms. The major outlay differences are for defense programs, social security benefits, medicare and Medicaid, OCS rents and royalties, community development programs and farm price supports.

CBO estimates that defense procurement outlays in 1981 could be over \$2 billion above the level estimated by the Administration, based on recent spending patterns. Defense spending for other purposes, including research and development, operations and maintenance, and military construction could be higher by another \$600 million for the same reason. In addition, the Administration indicates that increased fuel costs could require as much as \$4 billion in 1981 above the amounts included in the President's budget. As a result, defense spending in 1981 could be over \$6 billion above the budget estimate.

The CBO estimates of Social Security benefits in 1981 are \$1.1 billion higher than the Administration's. The CBO estimating methodology explicitly takes into account the effect of unemployment, wages and social security benefit levels in determining the number of new beneficiaries. CBO's assumptions of increasing levels of unemployment and falling real wages (wages adjusted for inflation) result in an acceleration of retirement rates. This different estimating technique more than offsets the lower cost-of-living adjustment forecast by CBO for July 1, 1981.

CBO's estimate of the cost savings that would result from the passage of hospital cost containment legislation is about one half of the Administration's \$780 million estimate, largely because of different assumptions concerning the response of hospitals to the incentives and controls that would be established. CBO also estimates that medicare and medicaid outlays in 1981 could be another \$400 million higher than included in the President's budget because of higher utilization rates and other differences in programmatic assumptions.

CBO estimates that receipts derived from the sale of leases of Outer Continental Shelf (OCS) lands and the royalties from mineral production will be \$800 million less than projected by the Administration. The bonuses received from these sales are highly variable and any estimates of future receipts are very uncertain. The effect of lower OCS receipts in 1981 would be an increase in outlays since these receipts are treated as negative or offsetting outlays in the budget.

The CBO estimates that 1981 outlays for community development block grants and other community development programs could be over \$600 million higher than estimated by the Administration, based on recent spending patterns for these programs. On the other hand, CBO estimates that outlays for farm price supports in 1981 could be \$500 million lower than estimated by the Administration, based on a different assessment of the impact of the recent grain embargo and the elimination of the double-counting of the cost for the proposed Food Security Reserve in the budget estimates.

These spending reestimates are subject to change as the CBO analyzes the President's budget in greater detail during the next few weeks and discusses the reestimates with the Budget and Appropriations Committees. Based on the preliminary analysis, however, it appears likely that 1981 outlays would be about \$5 to \$10 billion higher than estimated by the Administration.

CBO Baseline Projections

In analyzing the President's spending proposals for 1981, it is useful to compare the budget to projections of federal spending if the policies embodied in current law were simply continued and discretionary adjustments were made for expected inflation. These projections serve as a useful baseline for analyzing the effects of policy changes that are proposed by the President.

CBO's baseline projections for 1981 are based on action completed to date by the Congress on the 1980 budget plus anticipated supplementals for certain entitlements such as medicaid, and the 7 percent federal pay raise that became effective on October 1, 1979. The baseline projections also include the 1981 effects of the preliminary CBO spending reestimates for 1980, and assume that the Congress will lift or remove the 1981 authorization ceiling for the food stamp program. The projections do not include any other discretionary supplementals for 1980 that are proposed by the President for programs such as energy and defense. The 1980 base for the CBO projections total \$641 billion in budget authority and \$560 billion in outlays.

Under current law policies, spending adjusted for inflation is projected to rise to \$619 billion in 1981. The bulk of the projected \$59 billion increase in estimated outlays can be attributed to automatic inflation adjustments and population growth for various benefit payment programs, which account for \$42 billion, or 70 percent of the total increase. The remaining increase is almost entirely accounted for by discretionary inflation adjustments for defense and other federal programs, including federal pay for civilian and military employees. These discretionary adjustments would add an estimated \$15.5 billion in outlays in 1981. ^{3/}Comparisons between the President's request for 1981 and the CBO baseline projections are discussed in Chapter IV.

^{3/} For further details on the CBO baseline projections, see the forthcoming CBO report, Five-Year Budget Projections: Fiscal Years 1981-1985.

OFF-BUDGET FEDERAL ENTITIES AND THE PUBLIC DEBT LIMIT

Off-Budget Entities

The budget does not include a number of fiscal activities of the federal government that result in spending similar to budget outlays. The major exclusions are the outlays of off-budget federal entities that are federally owned and controlled, but whose transactions have been excluded from the budget totals under provisions of law. Their fiscal activities are not reflected in either budget outlays or the budget deficit; appropriation requests for their programs are not included in the totals of budget authority for the budget; and their outlays are not subject to the ceilings set by the Congressional budget resolutions. As discussed below, however, the outlays of the off-budget federal entities are added to the unified budget deficit to derive the total government deficit that has to be financed by borrowing from the public or by other means. When off-budget outlays are financed by Treasury borrowing, the additional debt is subject to the statutory debt limit.

The estimated outlays of the off-budget federal entities are shown in Table 22. Most off-budget outlays are accounted for by the Federal Financing Bank (FFB). The FFB itself does not operate any programs. Rather, it assists other government programs by purchasing loan assets from them, or making loans for which the agencies guarantee repayment. The

TABLE 22. OUTLAYS OF OFF-BUDGET FEDERAL ENTITIES: BY FISCAL YEAR, IN BILLIONS OF DOLLARS

Off-Budget Federal Entity	1979 Actual	Admin. Estimates	
		1980	1981
Federal Financing Bank	13.2	16.4	16.3
Rural Electrification and Telephone Revolving Fund	-a/ 0.1	-- 0.2	-- 0.1
Rural Telephone Bank			
Pension Benefit Guaranty Corporation	-a/ -0.9	-a/ 0.2	-a/ 1.6
Postal Service Fund	0.1	0.1	0.1
U.S. Railway Association			
Total	12.4	16.8	18.1

a/ Less than \$50 million.

sale of loan assets to the FFB are treated in the budget as offsets to the outlays of the agency that sells them. This has the effect of shifting the budget impact of direct loans from on-budget agencies such as the Farmers Home Administration to off-budget direct loans by the FFB. As discussed earlier, increasing asset sales can lower unified budget outlays. If the assets are sold to FFB, the effect is to lower on-budget outlays at the expense of increasing off-budget outlays. The Administration estimates that the FFB will purchase \$9.4 billion of loan assets in 1981, an increase of \$2.8 billion over the 1980 level.

The FFB also functions as an off-budget lender for some agencies. If an agency issues to a private borrower a 100 percent guarantee of repayment of principal and interest, the borrower can obtain an off-budget direct loan from the FFB on the basis of the guarantee. The interest rate charged is only slightly above Treasury's own borrowing costs, so the borrower receives an indirect interest subsidy as well as the guarantee. Because guaranteed loans are not counted in the budget as budget authority or outlays, a nonbudgetary transaction by an on-budget agency can lead to off-budget direct loans. For fiscal year 1981, the Administration estimates that FFB will make new loans of \$10.8 billion. After deducting repayments, net loan outlays would total \$6.8 billion.

The Congress and the Budget Committees have expressed concern about the exclusion of off-budget federal entities from the budget. The House Budget Committee and the Congressional Budget Office have recommended that all off-budget federal entities be included in the budget totals. The 1980 first and second concurrent resolutions recommended that a way be found within the Congressional budget process to relate accurately the outlays of off-budget federal entities to the budget.

Federal Debt Limit

Statutory limitations have customarily been placed on federal debt. The current limitation--\$879 billion--was enacted on September 29, 1979 and expires on May 31, 1980. The second budget resolution for 1980 specified the appropriate level of the public debt for the fiscal year at \$886.4 billion, about the same level as projected by the Administration in its latest estimates. The President's 1981 budget estimates that the amount of debt subject to statutory limit will rise to \$934.2 billion by the end of fiscal year 1981, an increase of \$55 billion over the current limitation.

Last year, the House of Representatives last year voted to change its rules to merge its actions on setting statutory limits on the level of public debt with the adoption of the annual budget resolutions, beginning in 1980 for fiscal year 1981. The Senate will continue to act on extensions to the statutory debt limit in separate legislation.

Four elements enter into the calculation of the amount by which the statutory debt limit must be changed: the unified budget deficit or surplus, the investment of trust fund surpluses in federal securities, the deficit of off-budget federal entities, and various means of financing other than borrowing. Table 23 shows the estimates for these elements underlying the appropriate public debt level specified in the second budget resolution for 1980 and estimated by the Administration for 1980 and 1981. Even if the unified budget were balanced, the debt subject to limitation would increase because of the investment by trust fund surpluses in debt securities and the deficit of the off-budget entities. Shifting outlays off-budget by loan asset sales to FFB and using FFB to make off-budget loans guaranteed by federal agencies are financing activities that increase the federal debt subject to limit while decreasing the unified budget deficit.

TABLE 23. ESTIMATES OF THE LEVEL OF PUBLIC DEBT SUBJECT TO STATUTORY LIMIT: BY FISCAL YEAR, IN BILLIONS OF DOLLARS

	Second Concurrent Resolution 1980	Administration Estimates	
		1980	1981
Increase in Debt Subject to Limit			
Budget deficit	29.8	39.8	15.8
Trust fund surplus a/	13.0	12.4	13.8
Deficit of off-budget federal entities	16.0	16.8	18.1
Means of financing (other than borrowing) and other adjustments a/	--	-9.5	-0.6
Total increase	58.8	59.5	47.1
Debt Subject to limit, Beginning of Year	827.6	827.6	887.2
Debt Subject to Limit, End of Year	886.4	887.2	934.2

a/ Excludes \$5.7 billion in 1980 and \$17.0 billion in 1981 for the estimated uninvested surplus of the proposed energy security trust fund.

CONTROL OF FEDERAL CREDIT ACTIVITIES

The President's 1981 budget implements a new control system for federal credit activities, fulfilling a pledge contained in the 1980 budget. The President's credit control system is based on annual limitations on gross lending for both direct lending and loan guarantee programs. Binding limitations on individual programs are proposed for inclusion in the regular annual appropriations acts. In essence, then, the President is establishing a separate credit section in the budget, in which limitations on credit programs are requested separately from but concurrently with regular appropriations requests.

The President's control system is a response to the increasing importance of federal lending and loan guarantees as a means of providing government services. Outstanding loans and loan guarantees are estimated to total \$428.8 billion by the end of fiscal year 1980. Commitments for new loans and loan guarantees by the federal government, including those by off-budget entities, are expected to total \$142.1 billion in fiscal year 1981, an increase of 12.7 percent above the actual level of new commitments in fiscal year 1979. Of this amount, the President is proposing limitations of \$59.7 billion for particular credit programs, as shown in Table 24. In this first year, appropriations limitations are not being proposed for various entitlement and insurance programs, because of their uncontrollable nature, or for housing credit programs, because of current uncertainty in the housing market.

While plans for direct and guaranteed loans under individual federal credit programs are reviewed each year during the budget process, there is no systematic mechanism in the Congress for reviewing the volume of total federal credit activity. Consequently, there is no systematic way to consider the resource allocation effects of loans and loan guarantees, nor the reasonableness of the total volume. It has become clear that, if the Congress wishes to allocate federal credit resources efficiently and to coordinate that allocation with fiscal policy and direct expenditures, it must exercise control over federal credit activities in a manner similar to that for direct spending activities. The Office of Management and Budget, the Treasury Department, the Board of Governors of the Federal Reserve System, and the Congressional Budget Office have recommended that the Congress include in its concurrent budget resolutions targets and ceilings on federal credit activity.

TABLE 24. THE FEDERAL CREDIT BUDGET TOTALS: BY FISCAL YEAR, IN BILLIONS OF DOLLARS

	1979 Actual	Administration Estimates		Extent of Proposed 1981 Limitations
		1980	1981	
New Direct Loan Obligations				
Unified budget	33.9	36.4	35.4	25.7
Off-budget	17.5	23.3	25.3	1.5
New Loan Guarantee Commitments				
	<u>74.7</u>	<u>75.2</u>	<u>81.4</u>	<u>32.5</u>
Total	126.1	134.9	142.1	59.7

To assist the Congress in reviewing the President's proposed 1981 limitations on federal credit programs, the Congressional Budget Office is preparing a separate analysis of federal credit programs, which will be published in February.

CHAPTER IV.

THE BUDGET BY FUNCTION

This chapter analyzes the President's spending proposals for fiscal year 1981 in each major functional category. The function classification is used as the basis for discussing national budget priorities in the deliberations by the Congress on the annual budget resolutions. The functional classifications presented in the President's 1981 budget have not changed significantly from those used for the 1980 budget.

The Congressional Budget Office (CBO) estimates of the President's budget proposals for both fiscal years 1980 and 1981 are preliminary adjustments of budget authority and outlay estimates using CBO economic assumptions (see Chapter I) and alternative programmatic assumptions where relevant. These preliminary reestimates have not been reviewed by the Budget and Appropriations Committees and are subject to change. This review will take place in February after CBO completes its analysis of the President's 1981 budget estimates.

The CBO baseline projections of 1980 spending are described in Chapter III and in the CBO report, Five-Year Budget Projections: Fiscal Years 1981-1985. CBO's baseline projections are not a forecast of spending for 1981. Rather, they are projections of spending if current laws were to remain unchanged and adjustments were made for expected inflation. These projections serve as a useful baseline for analyzing the effects of policy changes that are proposed by the President.

It should be noted that in the 1980 columns containing the President's latest request and the CBO estimate of the President's request in the following tables, the cost of the October 1, 1979 payraise is shown in the allowances function rather than distributed by function and program as is done in the President's printed 1980 budget proposals. The cost of the anticipated federal employee payraise for October 1, 1980 is shown in the allowances function in all 1981 estimates. Also, the 1981 budget figures have been adjusted to include Alaska oil receipts in the general government function rather than the community and regional development function.

NATIONAL DEFENSE (FUNCTION 050)

This function includes programs in Department of Defense-Military that provide for the pay and allowances for military personnel, the maintenance of forces, construction of military facilities, research and development, and the procurement of support and major combat equipment. It also provides funding for atomic energy defense activities and various defense related activities such as the Intelligence Community Staff, Selective Service System, and the Federal Emergency Management Agency.

Function Totals: In Billions of Dollars

	1980 Estimates			1981 Estimates		
	2nd Con. Res.	Pres. Latest Request	CBO Estimate of Pres. Request a/	CBO Baseline Projection	Pres. Budget Request	CBO Estimate of Pres. Request a/
Budget Authority	141.2	141.6	141.5	156.5	161.8	161.4
Outlays	129.9	130.4	131.7	145.5	146.2	148.9

a/ Preliminary, subject to change.

The President has proposed a defense budget which, based on Administration economic assumptions, provides for real growth of 5.7 percent in budget authority. Based on CBO economic assumptions, but accepting the President's proposed limitations on federal pay raises, the defense budget would provide for real growth of 4.7 percent. One significant difference in the discussion of growth in the defense budget between 1980 and 1981 is that real growth is now being considered in terms of budget authority instead of outlays. Budget authority is the primary indicator of new initiatives and policies in defense programs since about 90 percent of it is discretionary. Outlays are not as significant an indicator of future defense programs as is budget authority because only about 60 percent of each year's outlays is discretionary. The non-discretionary outlays are mainly the result of prior year decisions regarding arms purchases that are being executed in the budget year. A shift to budget authority recasts the discussion in terms of new spending decisions, rather than a mix of new decisions and the current implications of past decisions.

The following table summarizes the major defense programs, including the real growth in budget authority.

Summary of Major Programs--Function 050: In Billions of Dollars

	BA O	FY 1980 President's Latest Estimate	CBO Baseline Projection	FY 1981 President's Budget Request	Real Growth In BAa/ a/
		30.8 30.6	30.8 30.4	32.0 31.7	1.0
Military Personnel	BA O	12.0 11.9	13.3 13.3	13.7 13.7	.5
Retired Pay	BA O	43.4 40.9	46.2 44.4	48.6 46.4	1.7
Operation & Maintenance	BA O	13.5 12.9	14.4 14.0	16.5 14.8	1.9
Research & Development	BA O	35.7 27.6	40.4 32.7	40.5 30.5	1.8
Procurement	BA O	2.2 2.1	2.4 2.0	3.3 2.1	.9
Military Construction	BA O	4.0 4.3	9.0 8.7	7.2 7.0	-.5
Other	BA O	141.6 130.4	156.5 145.5	161.8 146.2	7.3
Total (Function 050)	BA O				

a/ Real growth in President's budget 1981 over 1980 based on CBO economic assumptions with President's pay raise.

The fiscal year 1981 President's Budget reflects different priorities than the fiscal year 1980 President's Budget. These shifting priorities are illustrated by comparing the real growth shown above with the real growth requested in the President's fiscal year 1980 budget.

- o Real growth in the President's 1980 budget request was concentrated primarily in Procurement (\$2.2 billion) with some growth in Operations and Maintenance (\$.6 billion).
- o The 1980 request contained no real growth in military personnel or research and development.
- o The 1980 request contained real decline in Military Construction/Family Housing (\$.8 billion).

The following sections discuss each of the major programs in greater detail.

Military Personnel

The President's budget requests an increase of \$1.2 billion in military personnel appropriations, which is about \$1 billion above what CBO estimates as necessary to cover inflation from 1980 levels. The budget requests \$321 million and \$186 million to cover increased average strengths in the active and reserve forces, respectively. It also requests an increase of \$109 million in active and reserve enlistment/reenlistment programs, including an increase in the bonus programs of \$79 million for the active force and \$21 million for the reserve forces.

Permanent Change of Station (PCS) travel costs increase by about \$300 million, with \$168 million primarily for rate increases and \$123 million for a revised reimbursement system that will provide for mileage allowance and per diem in lieu of the current mileage-only allowance.

Operation and Maintenance (O&M)

The O&M program in 1981 contains sizable increases for depot maintenance, mainly ship and aircraft overhauls (\$900 million), Trident submarine support (\$100 million), newly introduced Army weapon systems (\$400 million), real property maintenance activities (\$400 million), Army transportation (\$100 million), and support of the reserve components (\$100 million). There is no significant O&M funding in support of the Rapid Deployment Force.

The 1980 civilian personnel program takes advantage of the allowance to exceed earlier authorization by 1.25 percent. The 1980 program includes 991,000 civilians compared with 990,000 civilians in 1981.

Before payraises, the Operation and Maintenance program in the President's budget has real growth of \$1.0 billion or 2.5 percent in 1980 and \$1.7 billion or 3.7 percent in 1981. However, measuring the real growth in the President's request for operation and maintenance is difficult because absorption of 1981 payraises would offset potential real increases.

The 1980 payraise supplemental does not contain any appreciable absorption of the October 1979 payraise, but the 1981 estimate assumes about 40 percent or about \$1.2 to \$1.3 billion absorption of the October 1980 pay raise. Historically, DoD absorption has reduced the operation and maintenance program. If 60 percent of the absorption is taken in the operation and maintenance accounts the real growth would be \$1.1 billion or 2.3 percent in 1981.

The Administration believes that fuel requirements in the 1980 and 1981 budgets are underfunded because of oil price increases and may correct this perceived deficiency by submitting a 1980 supplemental and a 1981 budget amendment. The DoD program requires about 189 million barrels of oil or \$4.7 billion for oil budgeted at \$26.50 per barrel in 1981. This price is 8.8 percent above the price assumed in the 1980 request (\$24.36 per barrel). Neither price accounts for the latest or potential future price increases dictated by the Organization of Petroleum Exporting Countries (OPEC). A supplemental and amendment could add as much as \$3.5 billion and \$4.5 billion to the 1980 and 1981 requests, respectively. If these amounts are added and 60 percent is the operation and maintenance share of 1981 absorption, real growth is about \$4.5 billion or 10.7 percent in 1980 and \$1.6 billion or 3.2 percent in 1981.

Research and Development (R&D)

Overall R&D funds reflect real growth of 12.8 percent over 1980. The R&D share of the defense budget remains at its historical average of about 10 percent.

Strategic programs contain the greatest real growth, a 41 percent increase over fiscal year 1980. The major cause of this increase is continuation of full scale development of the MX missile system. MX R&D funding increases from \$670 million in fiscal year 1980 to \$1,551 million in fiscal year 1981, an increase of \$881 million or 131 percent. MX R&D funding is projected to reach \$2.2 billion in fiscal year 1982, and total investment for the program could exceed \$50 billion.

Other strategic programs showing increases over fiscal year 1980 include the Trident II missile, the SSBN-X (a possible replacement for the Trident submarine), B-52 bomber modification, and the air launched cruise missile.

Within tactical programs, significant changes include initiation of development of the CX Inter-theater airlift aircraft (an accelerated program with source selection in late fiscal year 1980), the DDGX class of escort ships, the FFX class of frigate, and expensive anti-air modifications for the DDG-963 ships. Total procurement costs for as many as 50 CX aircraft may exceed \$6 billion. Funding is increased for the development of a new class of attack submarines and two programs related to NATO Theater Force Modernization: the Pershing II missile and the Ground Launched Cruise Missile. The budget has no funding for the Marine Corps AV-8B aircraft development program which was initiated by Congress in the fiscal year 1980 budget.

The technological base (basic research) portion of the R&D budget reflects 10.8 percent real growth as a result of the continuation of an Administration policy initiated in fiscal year 1980 to increase spending for basic research.

Procurement

In fiscal year 1981, procurement contains real dollar growth of 4.7 percent. Initial analysis indicates that, although there is significant real growth in procurement dollars, there may not be comparable real growth in terms of weapons ordered. The program is examined in three categories: aircraft, land forces, and shipbuilding.

Aircraft - The table below shows the recent history of the aircraft procurement program:

	President's 1980 Program		President's 1981 Program	
	Jan 1979	Jan 1980	Jan 1979	Jan 1980
Army	145	119	163	80
Navy/Marines	103	103	113	104
Air Force	388	388	363	282
Total Aircraft	636	610	639	466
Total \$ (millions)	\$6,550	\$7,360	\$7,440	\$7,144

The aircraft procurement program in fiscal year 1981 reflects substantial decline. This table shows that the fiscal year 1981 program is 144 aircraft (24 percent) lower than the President's current 1980 program and 173 aircraft (27 percent) lower than the President's 1981 plan submitted in January 1979. Yet the fiscal year 1981 program reflects a real dollar decline of just \$878 million (10.3 percent) when compared to the fiscal year 1980 approved program, and only \$296 million (3.7 percent) when compared to the 1981 plan presented last year with the 1980 budget.

In the aircraft procurement programs, the percentage decline in the number of aircraft procured is much greater than percentage decline in real dollars. This fact is the result of aircraft unit price increases over the last year. Unit prices in this year's budget compared to unit prices for this year's program as projected in last year's budget show the following:

Aircraft	Percent Change 1981 Unit Price Jan 1979 Projection Versus Jan 1980 Budget	Total \$ Impact On 1981 Budget As A Result of Unit Price Change in FY 81 Program (\$ in millions)	Percent Change 1981 Units Ordered Jan 1979 Projection Versus Jan 1980 Budget
A-10	+41.5	+144.9	-43.4
F-15	+36.8	+198.1	-50.0
KC-10A	+15.1	+38.6	NC
E-3A	+13.0	+25.4	-33.3
TR-1	+18.7	+15.9	-50.0
UH-60	+56.7	+110.2	-44.8
F-16	+8.8	+147.6	NC
EA-6B	+53.6	+45.9	-50.0
F-14A	+8.0	+51.5	NC
F-18	+25.0	+289.5	NC
CH-53E	+20.6	+29.9	NC
E-2C	+21.5	+40.6	NC
EC-130Q	+75.9	+19.5	-66.7
P-3C	+39.7	+88.5	-33.3

If the aircraft shown on the chart were purchased at the fiscal year 1981 unit prices predicted last year, the fiscal year 1981 program could have been bought for \$1,246 million less. Similar analysis of Navy and Air Force missile procurement accounts identifies an additional \$453 million in unit price impact.

Some of the unit price increases may be at least attributable to the lower level of production. In all cases, the 1981 estimates submitted last year contained an allowance for inflation between fiscal year 1980 and fiscal year 1981, although this estimate may now be smaller than current estimates. However, in no case can the increases shown be explained as purely inflationary, using either CBO or Administration inflation estimates.

The data suggests that in 1981, although the budget may be buying aircraft in uneconomic quantities, other factors are also at work increasing prices.

Land Forces - The area of greatest dollar emphasis in procurement is land forces. Spending for both Army and Marine Corps land elements increases markedly over fiscal year 1980 levels.

There are areas in procurement for land forces with substantial increases in the number of items procured. For example, the Army proposes to purchase 3,588 wheeled vehicles in 1981 compared to 1,484 in fiscal year 1980. In the Marine Corps, a similar increase occurs. The Marines propose to buy 1,262 trucks in 1981 compared to 235 in fiscal year 1980. For the Marine Corps, it is significant that over 40 percent of the real growth in Marine Corps Procurement is attributable to trucks. The only major weapon request is for 120 155mm towed Howitzers.

The Army also has major dollar increases for tracked combat vehicles. The chart below shows the recent history of the tracked combat vehicles program:

	President's 1980 Program		President's 1981 Program	
	Jan 1979	Jan 1980	Jan 1979	Jan 1980
Tanks	603	416	591	569
Fighting Vehicle	208	100	400	400
Other Tracked Vehicles	712	513	509	525
Total Vehicles	1,523	1,029	1,500	1,494
Total \$ (millions)	\$1,693	\$1,642	\$1,818	\$2,242

The chart shows that the 1981 buy of tracked vehicles is about as projected in January 1980 although the total cost is \$424 million (25 percent) higher than estimated a year ago.

Some of this increase is attributable to higher than projected inflation but more than half is the direct result of a 95 percent increase in the unit cost for the new Fighting Vehicle. The unit cost for this vehicle now exceeds the unit cost of the M-60 tank by 26 percent and is 66 percent of the unit cost of the XM-1 tank. The table below illustrates unit price changes for many of the items procured for land forces.

Percent Change 1981 Unit Price Jan 1979 Projection Versus Jan 1980 Budget	Total \$ Impact On 1981 Budget As A Result of Unit Price Change in FY 81 Program (\$ in millions)	Percent Change 1981 Units Ordered Jan 1979 Projection Versus Jan 1980 Budget
Missiles:		
Roland	+20.0	+61.0
Stinger	+47.8	+22.9
TOW	+38.9	+22.6
Tracked Vehicles		
Fighting Vehicle	+94.8	+225.8
Carrier, M548	+31.3	+8.5
Ammunition:a/		
Cartridges		
50 cal	+43.9	+10.5
25mm TP-T	+138.2	+7.1
25mm HEIT-7	+125.1	+9.3
105mm		
APFDS-T	+62.5	+7.2
Copperhead	+69.8	+43.3
VIPER	+192.5	+8.8

a/ Since 1981 unit price estimates for ammunition were not included in the fiscal year 1980 Budget Submission, the 1981 projected figure is based on 1980 unit prices contained in the fiscal year 1980 budget adjusted for inflation.

At unit prices predicted last year, the fiscal year 1981 land forces equipment program could have been reduced by at least \$427 million.

The dollar impact of price changes of aircraft, missiles and the selected land forces equipment discussed above totals \$2.1 billion. Since there is only \$1.8 billion in real growth in the procurement accounts, the data suggests that there must be real decline in the amount of equipment being purchased.

Shipbuilding - The 1981 Navy shipbuilding program shows a real decline of 16.0 percent because the \$2.1 billion 1980 nuclear aircraft carrier procurement was not repeated in fiscal year 1981.

The chart below shows, however, that if the 1980 aircraft carrier buy is excluded from the computations, the fiscal year 1981 program reflects much of the real growth (+23.2 percent) that was projected for 1981 in the January 1979 budget. 1981 costs are lower than projected last year because of a change in the mix of ships and deletion of the DDG-2 modification program.

Navy Shipbuilding Program

	1980 Congressionally Approved	1981 Program	
		Jan 1979	Jan 1980
Total new ships \$ (millions)	12 6,682.4	17 6,534.9	17 6,118.4
Without carrier \$ (millions)	11 4,588.4	17 6,534.9	17 6,118.4

Unlike procurement of aircraft and land forces items, unit prices for ships are close to those projected a year ago. Several of the ships requested for 1981 are for the Rapid Deployment Force, including the following:

- o Maritime Prepositioning Ships: The budget contains funds for the first two of a fleet of 15 commercial type cargo ships intended to carry the equipment and supplies for three Marine brigades into a crisis area. Total cost of all 15 ships is expected to exceed \$2.8 billion.

- o Landing Ship, Dock (LSD-41): The budget contains funds for the procurement of the first of a new class of ships used to support amphibious landings. The initiative for this ship rests with Congress, which placed long lead funds in the fiscal year 1980 budget. At least three ships are expected to be acquired at a total cost of more than a billion dollars.

Significant changes in the outyear shipbuilding program indicate a decision to acquire more cruisers (CG-47) and less guided missile frigates (FFG-7), follow-on nuclear attack and ballistic missile submarines, and a new class of guided missile destroyers.

Military Construction

The military construction budget authority request of \$3.3 billion in fiscal year 1981 reflects a real increase of almost \$800 million. This increase translates into real growth of 36.3 percent using CBO 1981 inflation rates.

The increase in fiscal year 1981 over fiscal year 1980 is partially due to a low base for fiscal year 1980. The fiscal year 1980 budget submission reflected a DoD policy decision to defer \$1.3 billion of construction. As a result, some of the fiscal year 1981 increase is the partial resumption of the postponed construction. The major construction projects contributing to the fiscal year 1981 increase are related to the following systems: Space Shuttle (127.1 million), Air and Ground Launched Cruise Missile (89.4 million), Trident Ballistic Missile Submarine (34.2 million), MX Ballistic Missile (17.1 million), and NATO Infrastructure program (\$300 million).

The fiscal year 1981 budget also presents a new approach to military construction appropriations. In the past, most projects were fully funded in their year of authorization. In fiscal year 1981, incremental funding for two major programs has been requested. The San Diego hospital construction program, a \$300 million authorization, is requesting a first phase appropriation of only \$25 million for fiscal year 1981. The other major project, a \$109 million Defense Intelligence Agency (DIA) headquarters at Bolling AFB, is requesting a first phase appropriation of only \$32.7 million for fiscal year 1981.

The real growth in Family Housing is 11.7 percent. This increase reflects two factors: first, resumption of deferred construction, and second, a transfer of \$72.6 million out of O&M into Family Housing.

Retired Pay and Compensation Issues

Under current law, military pay raises are equal to general schedule (GS) civilian pay raises, which are to be based on comparability with private sector wages. The Administration proposes legislation to disassociate military and general schedule pay raises; such a proposal saves about \$200 million if the 1981 pay raises are 7.4 percent and 6.2 percent for military and general schedule, respectively, as opposed to 7.4 percent for everyone.

The President also proposes to allow alternative military pay raises in special circumstances, to make structural changes in defining comparability (e.g., including benefits in the computation of pay levels), and to change the system for granting wage board or blue collar pay raises.

The Administration's estimate of the full cost of the proposed pay raises in this function is about \$3.1 billion, of which only \$1.8 billion or 60 percent is requested. The remaining \$1.3 billion would be paid generally at the expense of non pay parts of the defense program. The cost of full comparability under current law is about \$5.0 billion or \$3.2 billion more than is being requested; if the same 40 percent absorption were assumed, the President's budget would be about \$1.2 billion higher.

A reform of the military retirement system has been submitted by the Administration to remedy alleged inefficiencies and inequities under the present system and to increase the number of second-term personnel (those with 5 to 12 years of service) who remain in the military. If passed in fiscal year 1980, the proposal would take effect in fiscal year 1982. Thus, there would be no effect on costs in fiscal year 1981.

Atomic Energy Defense Activities

The President's request for 1981 Atomic Energy Defense Activities contains about \$169 million real growth in operating expenses and about \$32 million real decline in capital equipment. Real growth totalling about \$191 million occurs in research, development, testing, production, and lifetime maintenance and surveillance of nuclear weapons. The other area of significant real growth (about \$43 million) is the defense nuclear waste management program; areas of real decline are inertial confinement fusion (about \$12 million) and materials production (about \$58 million).

Defense-Related Activities

The President's request for the Selective Service System contains about \$600 thousand or 5.9 percent real growth and is based on past mobilization registration plans. The real growth includes enhancement to data processing capabilities, participation in the Nifty Nugget test of general mobilization capability, and other readiness improvements. It does not provide for the peacetime registration proposed by the President; that proposal may cause significant change in the size and content of the Selective Service System budget request.

The 1981 request for civil defense programs grows in real terms by about \$12 million or 11 percent over the 1980 request. This real growth occurs in programs whose purpose is to accelerate development of crisis relocation plans for areas where strategic forces are concentrated, to effect nationwide pilot deployments such as emergency simulation exercise programs, and to procure preparedness materiel such as shelter stocks and ventilation devices.

INTERNATIONAL AFFAIRS (FUNCTION 150)

The international affairs function includes foreign economic and financial assistance, military assistance, activities associated with the conduct of foreign affairs, foreign information and exchange activities, and international financial programs.

Function Totals: In Billions of Dollars

	1980 Estimates			1981 Estimates		
	2nd Con. Res.	Pres. Latest Request	CBO Estimate of Pres. Request <u>a/</u>	CBO Baseline Projection	Pres. Budget Request	CBO Estimate of Pres. Request <u>a/</u>
Budget Authority	13.1	13.0	16.1	15.2	16.9	19.3
Outlays	8.4	10.4	10.2	9.6	9.6	9.6

a/ Preliminary, subject to change.

Due to the rapidly evolving international environment, the President's fiscal year 1981 budget request for the international affairs function is already obsolete in many areas. Efforts to increase economic and military assistance to Pakistan above the \$110 million proposed for 1980 have been announced and budget amendments may be submitted in the near future. Additional assistance to other countries is also being contemplated. The unstable political environment in many countries has increased the flow of refugees; the President may propose additional aid for refugees.

The \$3.9 billion growth in budget authority from 1980 to 1981 (\$13.0 to \$16.9 billion) is attributable to a \$5.5 billion budget authority increase in the Export-Import bank offset by decreases of \$1.1 billion in the multilateral banks and \$700 million in the Foreign Military Sales (FMS) Trust Fund. A new accounting procedure accounts for \$4.7 billion of the Export-Import Bank budget authority increases, but has no effect on actual program levels. The decline of \$800 billion in outlays is primarily attributable to a decrease of \$1.2 billion in the FMS Trust Fund offset by growth in other areas.

The President's budget has major program initiatives which effectively transfer off-budget substantial amounts of activity. In both 1980 and 1981, the President has proposed that the Export-Import Bank guarantee up to one

billion dollars in direct loans made through the Federal Financing Bank. Outlays associated with the disbursement of those loans would appear off-budget. In addition, Congress will be asked to approve a \$5.5 billion quota increase for the International Monetary Fund. The budget treats this increase as a limitation with no budget authority requested. A change in the budgetary treatment of callable capital subscriptions to the multilateral development banks reduces budget authority by \$1.1 billion.

The request also includes real program increases in the functional development and the migration and refugee assistance programs. Other programs are continued at roughly their current level.

Most foreign economic and military assistance programs are operating under a continuing resolution for fiscal year 1980. Because H.R. 4473, the Foreign Assistance and Related Programs Appropriations Act for 1980, has not yet been enacted, the President's fiscal year 1980 estimates are generally the House or Senate passed levels, whichever is closer to the President's original budget request. The total for the bill is higher than either House or Senate passed versions and \$1.4 billion higher in budget authority than the CBO estimate of the continuing resolution.

The President has proposed approximately \$335 million in program supplementals for 1980, of which \$176 had been previously submitted. They include \$180 million for the Economic Support Fund, \$98 million for PL-480 food assistance, \$27 million for Contributions to International Organizations, \$10 million for Foreign Military Credit Sales, and lesser amounts for other smaller programs. In addition, the President has requested a \$250 million increase in the Export-Import Bank program limitation for fiscal year 1980. The increase is to support a one billion dollar increase in the guarantee and insurance program and will not affect budget authority or outlays.

Highlights of the major programs are discussed in the following sections:

Security Assistance

The President's request of \$2,152 million for security assistance in 1980 includes the pending supplemental of \$80 million for Nicaragua and the Caribbean, and a \$100 million supplemental for economic assistance to Pakistan. The Pakistan supplemental and the \$70 million for Nicaragua should both disburse in 1980. This will increase 1980 outlays by \$170 million. The 1981 request of \$2,106 million does not include \$100 million for Pakistan which will be transmitted later. With the Pakistan program, the President's 1981 request is only 2.4 percent greater than his 1980 request.

Multilateral Development Banks

The \$1.7 billion budget request for 1981 does not include an amount for callable capital subscriptions to the Banks. (Callable capital serves as a guarantee of the institutions' borrowing in private markets and has never been drawn.) While these subscriptions have required full appropriation in the past, the President will propose authorizing legislation to make the subscriptions subject only to a limitation. In the absence of the authorizing legislation, the budget request would increase by \$1.1 billion as indicated in the following table:

Funding for Multilateral Development Banks: In Millions of Dollars

		President's Estimate for FY 1980	President's Request for FY 1981
IBRD	paid-in callable	\$ 82.6 743.2	\$ 20.0 (180.0)
IDA		1,092.0	1,080.0
IFC		33.4	--
IDB	paid-in callable	51.6 635.8	51.6 (635.7)
FSO		182.3	318.0
ADB	paid-in callable	20.0 179.8	25.2 (226.8)
ADF		171.3	111.3
AFDB	paid-in callable	-- --	18.0 (54.0)
AFDF		<u>41.7</u>	<u>41.7</u>
President's Budget Authority Request		<u>\$3,233.6a/</u>	<u>\$1,665.8b/</u>
 Total President's Program Request		 <u>\$3,233.6a/</u>	 <u>\$2,762.3a/</u>
 paid-in callable		 1,674.8	 1,665.8
		1,558.8	1,096.5

a/ Includes callable capital.
b/ Does not include callable capital.

Including callable capital, budget authority declines from \$3.2 billion in fiscal year 1980 to \$2.8 billion in fiscal year 1981. This decrease reflects the fact that no replenishment is currently under way for the World Bank and should not be interpreted as a declining U.S. commitment to the multilateral banks. A new replenishment is anticipated for the World Bank beginning in fiscal year 1982. (A replenishment is an international agreement for increasing the financial resources of the banks.) Excluding the World Bank, budget authority increases by 6 percent in nominal terms. Outlays increase from \$882 million to \$972 million over this period.

Since Congress has yet to complete action on the fiscal year 1980 Foreign Assistance Bill, the 1980 budget levels for the banks represent the higher of the House or Senate passed bill. Amounts which are currently included in the 1980 budget level but which are not appropriated, will be submitted as a budget amendment for 1981. This could increase the 1981 budget request by \$100 to \$500 million.

Budget authority available to the banks under the continuing resolution for fiscal year 1980 totals \$2.3 billion. Current policy for fiscal year 1981 includes a budget authority level of \$3.3 billion. The baseline projection assumes that amounts requested in fiscal year 1980 but not available under the continuing resolution totals will be made up in 1981 and 1982.

International Development Cooperation Agency

The 1981 request of \$1,989 million for The International Development Cooperation Agency represents an increase of \$236 million, or 12 percent, from the President's estimate for fiscal year 1980. The largest increases, \$195 million and \$71 million respectively, are requested for the functional development assistance program and the Institute for Scientific and Technological Cooperation. These increases are partially offset by a \$47 million decrease for International Disaster Assistance.

When compared to the amount estimated to be available for fiscal year 1980 under the Continuing Resolution (P.L. 96-123), the request for fiscal year 1981 represents an increase of \$445 million, or 25 percent.

Military Assistance

The President's budget continues to shift the emphasis of military assistance from grants to credit sales. The level of grant military assistance requested for fiscal year 1981 is \$5 million less than the estimate for fiscal year 1980. However, the sales of military equipment furnished by the foreign military credit sales program are increased by \$550 million or nearly 20 percent. This does not include a possible 1981 amendment for \$100 million in guaranteed sales for Pakistan.

The emphasis on guaranteed sales continues in spite of the experience of over \$100 million in payments on defaults in fiscal year 1979. Most of the defaults have been subsequently paid by the borrowing country or rescheduled. The repayments are recovered by the Treasury as an offsetting receipt and do not replenish the guarantee fund. While the President's budget includes an estimate of \$40 million for payment of defaults in fiscal year 1980, payments in the first quarter alone have exceeded \$40 million. Thus, the budget underestimates the outlays for this account.

The President now estimates that the entire \$1,040 million for relocating Israeli air bases from the Sinai will complete obligation in 1980. Four million dollars was funded through the foreign military sales trust fund and \$800 million was appropriated in a 1979 supplemental that also provided contract authority for such sums as necessary to complete the project. Two hundred and thirty-six million dollars in contract authority will obligate in 1980 and appears in the President's budget as new budget authority for 1980.

Public Law 480 - Food for Peace

For fiscal year 1981, the President requests a program of \$1,615 million to finance the export of 6 million metric tons of commodities at pre-trade sanction prices. Net of receipts and carry-forward financing this will require the appropriation of \$1,129 million and outlays of \$1,153 million.

The 1981 request maintains the level of fiscal year 1980 exports with the pending \$96 million supplemental. An additional \$100 million supplemental for 1980 and a \$100 million amendment for 1981 may be transmitted in the near future.

International Monetary Fund

This year, Congress will be asked to approve the seventh general quota increase for the International Monetary Fund of approximately \$5.5 billion. The President's fiscal year 1981 budget request does not include budget authority for this item, but instead proposes a program limitation. One budget issue concerning the quota increase may be whether to treat some or all of the increase as budget authority. Either treatment will not impact outlay estimates because outlays from this account would be estimated at zero.

The Export-Import Bank

The \$5.5 billion increase in budget authority from fiscal year 1980 to 1981 is largely due to two changes in accounting methodology. The first

change is that the annual loan limitation now applies to budget authority for only one year instead of being spread over two years. Because 1981 is the overlap year, the budget authority is especially high. 1981 includes the entire 1981 loan limitation plus the remainder of the 1980 limitation. The second change is the inclusion of principal repayments on borrowing by the Ex-Im Bank. Together these changes account for \$4.7 billion of the budget authority increase. The remainder of the increase is due to 5.6 percent growth in the direct loan program.

The guarantee and insurance program will grow by 13.8 percent. Most of this increase is due to a new policy of guaranteeing up to \$1 billion in both 1980 and 1981 in direct loans made through the Federal Financing Bank. Outlays for these guarantees will be off-budget. In order to accommodate this \$1 billion growth, the Administration is requesting a \$250 million supplemental for its 1980 program limitation.

Outlays, which are defined as disbursements of direct credit less repayments and net income, increase from \$1.0 billion in 1980 to \$1.1 billion in 1981. Most of the increase results from the 1980 program, which not only is larger than the 1979 program but also has a heavy concentration of loans that disburse in 1981.

Foreign Military Sales Trust Fund

Government-to-government sales of military equipment and services are channeled through the foreign military sales trust fund. The President estimates new orders of \$14.5 billion per year in fiscal years 1980 and 1981. This is an increase of \$1.5 billion in new orders in 1980. Gross budget authority represents the estimate of obligations of the Fund and gross outlays are estimates of payments from the Fund. Gross budget authority and outlays are netted against receipts collected from foreign purchases.

In spite of the increase in new acceptances in 1980, the President's estimate of gross obligations in 1980 drop by \$3.0 billion from his mid-session review. The long range budget estimates show obligations rising to \$10 billion by 1982 from a program of new orders of \$14.5 billion per year with program and obligations remaining constant through 1985. If this is the case, over one-third of new orders would never be obligated, versus a historical rate of about 15 percent. Based on these facts CBO would increase the President's 1981 estimate of net budget authority by \$2.4 billion.

Receipts and the cash balance of the trust fund are estimated to be reduced by \$1.2 billion in 1980 through the use of off-budget deposit accounts. Net budget authority and outlays will increase accordingly.

GENERAL SCIENCE, SPACE AND TECHNOLOGY (FUNCTION 250)

This function includes the general science and basic research programs of the National Science Foundation (NSF) and the Department of Energy (DOE), and the space programs of the National Aeronautics and Space Administration (NASA).

Function Totals: In Billions of Dollars

	1980 Estimates			1981 Estimates		
	2nd Con. Res.	Pres. Latest Request	CBO Estimate of Pres. Request <u>a/</u>	CBO Baseline Projection	Pres. Budget Request	CBO Estimate of Pres. Request <u>a/</u>
Budget Authority	5.85	6.1	6.1	6.3	6.9	6.9
Outlays	5.7	5.9	5.9	6.1	6.4	6.4

a/ Preliminary, subject to change.

The President's budget authority request for fiscal year 1981 represents an increase of \$1.1 billion (about 18 percent) over 1980 appropriations to date, and an increase of 12 percent over his 1980 estimate, which includes a \$300 million proposed supplemental. The 1981 request is also 9 percent above the CBO baseline projection, which is based on 1980 appropriations to date. The major funding increases are concentrated in NASA space flight programs, with particular emphasis on the space shuttle. The President is requesting a \$300 million 1980 supplemental for space shuttle development and testing, aiming towards a first flight in late 1980 or early 1981. If approved, 1980 budget authority for space flight activities would be \$2.8 billion, a 16 percent increase over the 1979 appropriation. The 1981 request continues the rapid growth in space flight spending, with an increase of approximately \$350 million (12 percent), representing real growth of 3.5 percent. As a result, outlays are projected to grow from \$2.2 billion in 1979 to over \$3.0 billion in 1981, an increase of almost 36 percent in two years.

The remainder of the proposed funding increase is concentrated in the NSF and DOE research programs, which are targeted for a 14 percent

increase in budget authority (\$209 million) and an 11 percent increase in outlays (\$152 million). NSF basic research activities represent the largest increase in funding (\$158 million), a 16 percent increase over this year and 7 percent over the CBO baseline projection.

The President is requesting an increase of \$176 million in 1981 for other NASA programs in this function, an amount 9.6 percent above the 1980 level and representing real growth of 1.4 percent. This includes a request for three new projects proposed this year: a gamma ray satellite (\$19 million), an operational land observing system (\$16 million), and a satellite system to study oceans (\$6 million). Existing projects targeted for large increases include international solar-polar mission development and shuttle/spacelab payload development and mission management.

ENERGY (FUNCTION 270)

This function includes the major energy programs of the federal government, including energy research and development, conservation, regulation, emergency preparedness and production. The Department of Energy (DOE) is responsible for most of these programs. Several other agencies, including the Tennessee Valley Authority (TVA), the United States Geological Survey, and the Environmental Protection Agency also perform activities that fall within this function.

Function Totals: In Billions of Dollars

	1980 Estimates			1981 Estimates		
	2nd Con. Res.	Pres. Latest Request	CBO Estimate of Pres. Request <u>a/</u>	CBO Baseline Projection	Pres. Budget Request	CBO Estimate of Pres. Request <u>a/</u>
Budget Authority	39.5	41.4	40.3	4.3	7.4	7.3
Outlays	7.25	7.7	6.5	7.0	8.1	7.7

a/ Preliminary, subject to change.

The President is requesting 1981 budget authority significantly lower than the 1980 level, with a proposed decrease from \$41.4 billion in 1980 to \$7.4 billion in 1981. Outlays, though, are projected to increase by about 5 percent, from \$7.7 billion to \$8.1 billion.

The difference between 1980 and 1981 funding levels is substantial because the 1980 budget authority includes \$20 billion already appropriated for synthetic fuels development and \$15 billion in borrowing authority for the Tennessee Valley Authority (TVA), while the 1981 budget includes a significant increase in receipts for the Naval Petroleum Reserve (NPR) and a large reappropriation for the Strategic Petroleum Reserve (SPR). TVA borrowing authority is appropriated periodically to cover its major construction projects, and no additional authority is requested for 1981. TVA outlays are projected to be \$1.8 billion in 1980 and \$2.0 billion in 1981. While the 1980 budget includes no budget authority for the Strategic Petroleum

Reserve, the 1981 budget request is \$2.4 billion (including a reappropriation of \$2.3 billion). Outlays for the SPR are projected to be \$0.8 billion in 1980 and \$1.3 billion in 1981. The 1981 request also assumes significantly higher receipts to the Naval Petroleum Reserve than in 1980, with an increase of \$471 million (\$1.6 billion to \$2.1 billion). An accounting error that understates the 1980 estimate increases the apparent difference from \$0.5 billion to \$1.2 billion.

In addition, the President is proposing major initiatives for 1980, including \$258 million for the Energy Security Trust Fund (to be funded by the proposed windfall profits tax) and \$300 million for a proposed away-from-reactor nuclear waste storage program (AFR). He is also requesting 1980 supplemental appropriations (excluding pay) totalling \$486 million. As a result, the President's 1980 budget authority request totals \$41.4 billion, compared to \$7.4 billion in 1979.

Outlays from these increases in budget authority are not projected to be large in either 1980 or 1981. The President's budget projects outlays of \$598 million in 1980 and \$976 million in 1981 as a result of these initiatives and supplementals. In addition, the President is proposing two major loan guarantee programs. The Energy Security Corporation, under the President's plan, will provide \$2.3 billion in loan guarantees in 1980 and \$2.0 billion in 1981 for synthetic fuel projects. An additional \$250 million in loan guarantees is to be provided in both 1980 and 1981 for biomass projects. These guarantees are to be administered by the Department of Agriculture, and no outlays are projected in 1980 and 1981.

Excluding these major program changes, the 1981 request represents an increase of \$0.2 billion over 1980, or about 4 percent. Outlays are projected to increase from \$5.3 billion to \$5.8 billion, a 9 percent increase. Major outlay increases are estimated for conservation, fossil energy construction, and solar programs, as well as for the Nuclear Regulatory Commission and the Department of Energy's administrative costs.

Summary of Energy Programs in Which Major Changes are Proposed
Between 1980 and 1981: In Billions of Dollars

		<u>1980</u>	<u>1981</u>
<u>Total Request</u>	BA	41.4	7.4
	O	7.7	8.1
<u>Less Programs With Major Changes:</u>			
Energy Security Corporation	BA	17.8	0.0
	O	*	*
Energy Security Reserve	BA	2.2	0.0
	O	0.2	0.2
Energy Security Trust Fund	BA	0.3	0.7
	O	0.2	0.6
AFR Nuclear Waste	BA	0.3	0.0
	O	-0.1	0.2
Supplementals	BA	0.5	0.0
	O	0.4	0.1
Tennessee Valley Valley	BA	15.0	0.0
	O	1.8	2.0
Strategic Petroleum Reserve	BA	0.0	2.4
	O	0.8	1.3
NPR Receipts	BA	-0.9	-2.1
	O	<u>-0.9</u>	<u>-2.1</u>
<u>President's Request--All Other Energy Programs</u>	BA	6.2	6.4
	O	5.3	5.8

* less than \$20 million

Summary of Major Programs--Function 270: In Billions of Dollars

	FY 1980		FY 1981	
	President's Latest Request	CBO Baseline Projection	President's Request	
Energy Supply	BA O	24.6 4.0	2.1 2.0	2.6 2.7
Power Marketing	BA O	-0.1 -0.3	-0.2 -0.3	-0.1 -0.2
Tennessee Valley Authority	BA O	15.0 1.8	0.0 2.0	0.0 2.0
Energy Conservation	BA O	0.9 0.6	0.8 0.8	1.3 1.2
Strategic Petroleum Reserve	BA O	0.0 0.8	0.7 1.5	2.4 1.3
Other Energy Programs	BA O	1.1 0.9	1.0 1.0	1.2 1.2
General DOE Receipts	BA O	-0.1 <u>-0.1</u>	-0.1 <u>-0.1</u>	-0.1 <u>-0.1</u>
Total	BA O	41.4 7.7	4.3 7.0	7.4 8.1

Energy Supply

The 1981 request for the energy supply programs administered primarily by DOE represents a decline of \$37 billion from the 1980 level. This decrease is the result of significant funding for the major programs initiated in 1980 that do not require additional funds in fiscal year 1981. These include the Energy Security Corporation (\$17.8 billion), the Energy Security Reserve (\$2.2 billion), the AFR program (\$0.3 billion), and TVA (\$15.0 billion). The Energy Security Trust Fund request includes \$147 million in 1980 and \$266 million in 1981 for energy supply activities, of which \$35 million in 1980 and \$150 million in 1981 are for the proposed Solar Energy Bank.

Excluding these one-time or periodic funding requests, as well as \$350 million of the 1980 supplemental request (of which \$308 million is to cover uranium enrichment costs), the trust fund, and Naval Petroleum Reserve receipts, the remaining 1981 energy supply budget reflects a decrease of approximately \$0.3 billion (6 percent). Outlays are projected to decline by \$0.1 billion. This decrease is the result of several program reductions. The largest single decrease is for uranium enrichment activities (\$654 million), because enrichment revenues are to be made available to cover enrichment costs without further appropriation action. Revenues from the sale of enriched uranium are projected to be approximately \$1.3 billion in 1981, down slightly from 1980. Other proposed decreases in budget authority are for exploration of the National Petroleum in Alaska (\$111 million), fossil energy research (\$55 million) and capital costs for energy supply research (\$47 million).

There are also several major increases proposed in energy supply programs. Funds requested for fossil energy construction projects (including the solvent refined coal projects I and II and the high BTU synthetic pipeline gas plant) increase by \$347 million, more than tripling the 1980 budget authority and almost tripling the CBO baseline projection. Funds proposed for energy supply research and development (non-fossil) increase by \$129 million (5 percent). The allocation of these funds reflects a changing emphasis in research efforts. Nuclear fission activities funds are reduced by \$230 million, primarily for breeder reactor research and development. Funding is increased for nuclear fusion (\$88 million) and solar and renewable energy (\$50 million).

Energy supply outlays in 1981 are estimated to be lower than in 1980 for virtually every existing program, with the major exception of fossil energy construction, which increases by \$71 million, or 51 percent. The Energy Security Trust Fund is projected to result in outlays of approximately \$140 million in 1980 and \$246 million in 1981. About 55 percent of the 1981 outlays will be for the Solar Energy Bank. The remainder is primarily for fossil energy research and biomass loans.

Energy Conservation

The President is proposing a significant increase in budget authority for energy conservation programs, from \$0.9 billion in 1980 to \$1.3 billion in 1981, a 52 percent increase. Energy conservation programs also account for a projected \$0.6 billion increase in outlays in 1981, almost doubling the 1980 level. The \$456 million increase in budget authority is primarily the result of the President's proposed Energy Security Trust Fund, for which he

proposes appropriations of \$111 million in 1980 and \$415 million in 1981 for conservation programs. The most significant of these programs is the proposed Energy Conservation Bank, with proposed funding of \$100 million in 1980 and \$300 million in 1981. The residential/commercial retrofit program and the utility oil backout program are also to be funded out of the trust fund. Other major increases include \$110 million for a proposed state and local grants program and \$40 million for a public information program.

The increase in projected 1981 outlays is composed of \$364 million for the President's initiatives (\$324 million for the Conservation Bank) and approximately \$200 million for existing programs and supplementals.

Strategic Petroleum Reserve

The President requests \$2.4 billion for the SPR in 1981. Only \$8.6 million was requested in 1980. The 1981 request is for a new appropriation of \$104 million and a reappropriation of \$2.3 billion. Present appropriations of this amount expire at the end of calendar year 1980. Estimated outlays of \$0.8 billion in 1980 for the Reserve assume the resumption of oil purchases in June, at a rate of 100,000 barrels a day (No purchases have been made since the second quarter of fiscal year 1979). Acquisition at this rate will result in a reserve of 104 million barrels and available storage of 144 million barrels at the end of fiscal year 1980 and a reserve of 140 million barrels at the end of fiscal year 1981. Development of an additional 290 million barrels of storage capacity is scheduled to continue in 1981. The President's estimate of outlays in 1981 includes \$1.1 billion for oil purchase and \$180 million for development and planning.

Other Energy Programs

This category includes the budgets of the federal government's energy regulation and information agencies, as well as the Department of Energy's administrative costs. The President's budget request for this area increases from \$1.1 billion in 1980 to \$1.2 billion in 1981, a 13 percent increase. The largest increase is for DOE administration, up \$89 million, a 33 percent increase from 1980. The Nuclear Regulatory Commission budget request is increased by 14 percent from \$413 million in 1980 to \$468 million in 1981. The increase reflects greater efforts in nuclear safety research and accident prevention activities. The number of permanent positions requested increases by 356 in 1981.

These increases are partially offset by a proposed decrease in funding for the Energy Regulatory Administration, from \$196 million in 1980 to \$162

million in 1981. This decrease is the result of a \$43 million supplemental request in 1980 to further develop a standby gasoline rationing plan and other emergency conservation programs.

The lower outlays projected by CBO for both 1980 and 1981 are the result of different assumptions regarding several programs. First, Naval Petroleum Reserve receipts are projected to be approximately \$300 million higher in 1980 and \$100 million higher in 1981 because of higher oil price assumptions. Second, lower spendouts are expected for the various initiatives based on historical outlay patterns for new federal programs. This accounts for lower outlays of \$100 million in 1980 and \$200 million in 1981. Lower outlays (\$100 million) are also projected for fossil energy construction projects in 1980, based on spending to date. In addition, CBO does not project \$100 million in receipts for the away-from-reactor nuclear waste storage proposal during 1980, because it appears unlikely the program can be sufficiently underway during the remainder of the fiscal year. This assumed delay also results in lower outlays of \$100 million for AFR in 1981.

NATURAL RESOURCES AND ENVIRONMENT (FUNCTION 300)

This function is composed of programs for the development and management of water resources, conservation and land management, development of recreational resources, pollution control and abatement, and other natural resource programs.

Function Totals: In Billions of Dollars

	1980 Estimates			1981 Estimates		
	2nd Con. Res.	Pres. Latest Request	CBO Estimate of Pres. Request a/	CBO Baseline Projection	Pres. Budget Request	CBO Estimate of Pres. Request a/
Budget Authority	12.6	12.5	12.5	13.1	13.3	13.3
Outlays	11.9	12.6	12.7	13.1	12.8	13.1

a/ Preliminary, subject to change.

The President's fiscal year 1981 budget for natural resources and environmental programs includes a budget authority increase of 6 percent (\$796 million) over the President's latest request for fiscal year 1980, and 1 percent above CBO's baseline projection. Nevertheless, the Administration estimates that outlays will increase by only \$214 million or 2 percent over the fiscal year 1980 level, an amount \$300 million less than CBO's estimate. The President's latest 1980 outlay estimate exceeds the second concurrent resolution by over \$700 million. Most of this increase is due to projected outlay increases of the Environmental Protection Agency's (EPA) construction grant program.

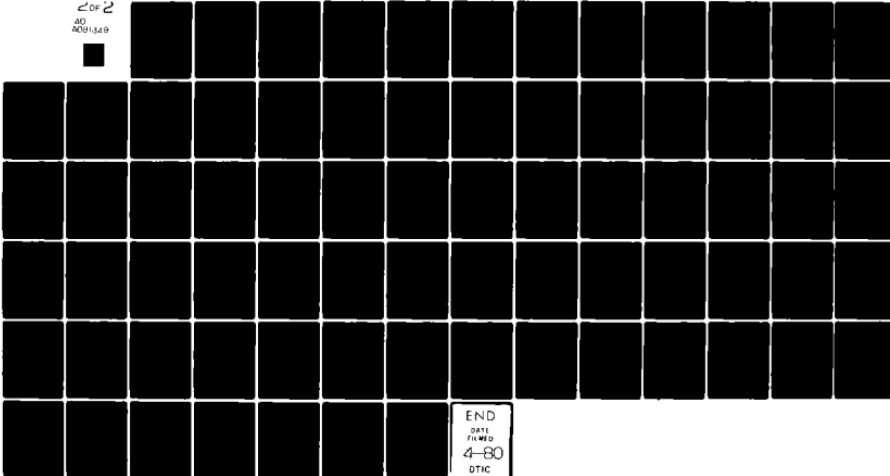
Excluding offsetting receipts primarily relating to the sale of timber in national forests, which increase by \$319 million, the President is proposing an increase of \$1.1 billion in budget authority (7.5 percent) and \$528 million in outlays (3.6 percent) in fiscal year 1981. Most of the major areas are targeted for small or moderate increases, with the largest percentage increase in budget authority for pollution control and abatement programs (up \$0.6 billion, or 13 percent), which the President proposed to cut in the

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CONGRESSIONAL BUDGET OFFICE (U S CONGRESS) WASHINGTON DC F/8 5/1
AN ANALYSIS OF THE PRESIDENT'S BUDGETARY PROPOSALS FOR FISCAL Y--ETC(U)
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NATURAL RESOURCES AND ENVIRONMENT (FUNCTION 300)

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Function Totals: In Billions of Dollars

	1980 Estimates			1981 Estimates		
	2nd Con. Res.	Pres. Latest Request	CBO Estimate of Pres. Request a/	CBO Baseline Projection	Pres. Budget Request	CBO Estimate of Pres. Request a/
Budget Authority	12.6	12.5	12.5	13.1	13.3	13.3
Outlays	11.9	12.6	12.7	13.1	12.8	13.1

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original 1980 budget. Funding for water resources programs of the Corps of Engineers and the Department of the Interior is increased by \$418 million (11 percent), but program levels are projected to rise by less than 7 percent. The 1981 budget authority request for recreational resources, conservation and land management, and other natural resources is 1.5 percent above the 1980 estimate. In contrast, the President's original 1980 budget request included a sharp reduction in funding for conservation and land management, and a modest cut in funds for recreational resources.

Summary of Major Programs--Function 300: In Billions of Dollars

	FY 1980		FY 1981	
	President's Latest Request	CBO Baseline Projection	President's Request	
Water Resources	BA O	3.7 4.2	4.0	4.1
Forest Service	BA O	1.9 1.6	1.9 1.8	1.8 1.8
Other Conservation Land/ Management Programs ^{a/}	BA O	1.3 1.3	1.3 1.3	1.3 1.3
Recreational Resources	BA O	1.7 1.4	1.8 1.7	1.7 1.5
Pollution Control and Abatement	BA O	4.7 4.9	5.0 5.2	5.3 5.1
Other Natural Resources	BA O	1.4 1.3	1.5 1.5	1.5 1.5
Offsetting Receipts	BA O	-2.1 -2.1	-2.4 -2.4	-2.4 -2.4
Total--Function 300	BA O	12.5 12.6	13.1	13.3 12.8

a/ Excluding offsetting receipts

The proposed \$595 million funding increase for pollution control and abatement activities would result in a growth rate of almost 13 percent over the 1980 level, an increase of 5 percent over the CBO baseline projection. This substantial increase is attributable in part to the proposed establishment of a comprehensive oil and hazardous substance liability fund (often called the "superfund"), as well as increases in ongoing EPA programs. The superfund would provide resources to clean-up oil and hazardous waste spills, as well as abandoned hazardous waste sites. The President is requesting \$250 million in budget authority to initiate the fund, which would be financed from both industrial fees (\$200 million) and from general funds (\$50 million). Total budget authority of \$1.6 billion is projected between 1981 and 1984, with \$1.3 billion to be financed from industrial fees. Outlays from the superfund are estimated to be \$45 million in fiscal year 1981, reaching \$550 million by fiscal year 1985.

The requested EPA budget authority increases for ongoing programs, totalling \$423 million, represent a growth rate of over 9 percent. They are directed toward the construction grant program and EPA's regulatory and research programs. The President is requesting \$3.7 billion in budget authority for EPA's construction grant program, an increase of \$300 million. Based on CBO's \$4.2 billion obligation estimate for fiscal year 1980, and the President's budget request, \$6.9 billion would be available for obligation for this program in 1981. Of the \$123 million increase in budget authority for regulatory and research programs (11 percent above the 1980 level), \$55 million would be for salaries and expenses, \$35 million would be for research, and \$29 million would be for abatement, control and compliance.

These increases are partially offset by a proposed reduction in funding for USDA's rural clean water program. This program received its first appropriation, \$50 million, in 1980, to provide technical assistance and financing to landowners for the control of non-point sources of water pollution. The President is requesting only \$20 million for this program in 1981.

The President's request for water resource programs of the Corps of Engineers, Soil Conservation Service (SCS), and the Water and Power Resources Service (WPRS, formerly the Bureau of Reclamation) also exceeds the CBO baseline projection. The budget proposes an 11 percent increase (\$418 million) over the current 1980 request, about 5 percent above the CBO baseline. The largest percentage increase (32 percent) is in funding for the WPRS, primarily for its construction program (up \$172 million). However, this does not accurately reflect the proposed change in program activity, because construction obligations in 1980 are anticipated to include \$156 million in previously appropriated but unobligated funds. As a result,

WPRS construction obligations are estimated to rise by only \$16 million, or 3 percent, from 1980 to 1981. When similarly adjusted, WPRS program activity overall is projected to rise only 5 percent, and total water resources spending is up less than 7 percent.

Most of the remaining water resources programs are those of the Corps of Engineers, for which the President is seeking a 7 percent increase (\$205 million). This 1981 request, which is 3 percent above the CBO baseline projection, includes increases over 1980 levels for construction (\$72 million, or 5 percent) and operation and maintenance (\$102 million, or 12 percent). The \$1.6 billion request for construction in 1981 does not include funding for any new projects. The President is seeking to postpone such projects until the Water Resources Council is reauthorized and can review proposed projects.

The President's budget authority request for natural resources programs of the National Oceanic and Atmospheric Administration (NOAA), the Geological Survey, and the Bureau of Mines represents an increase of about 7 percent over the 1980 level, approximately equal to the CBO baseline projection. One of the largest increases is \$.25 million for the Bureau of Mines. However, this does not reflect a rise in spending of that magnitude, but is primarily the result of an Administration proposal to change the financing mechanism for the helium program. The President is proposing legislation to terminate the helium revolving fund and the permanent contract authority of \$47.5 million, which is usually rescinded. A new helium operations fund would be established and would receive a direct appropriation of \$17 million, which is the amount that would have been obligated by the existing revolving fund.

Other proposed funding increases in this area average about 5.5 percent. The requested \$36 million added budget authority for NOAA is 5 percent above the President's 1980 request, and 1 percent above the CBO baseline projection. The increase is primarily for ship rehabilitation, weather forecasting, warning services, and basic environmental services, with new emphasis on the environmental satellite services program.

The areas in this function with the smallest proposed increases in budget authority are recreational resources (up 3 percent) and conservation and land management (down 1.5 percent). The President's request for the recreational programs of the Heritage Conservation and Recreation Service (HCRS), the U.S. Fish and Wildlife Service (USFWS) and the National Park Service (NPS) represents a decrease in real terms of approximately 3 percent in budget authority when compared to CBO's baseline projection. Major increases include \$61 million for HCRS programs, \$10 million for USFWS programs and \$7 million for NPS. The \$61 million increase for

HCRS consists of a \$71 million increase for the Land and Water Conservation Fund (up 13 percent from 1980), offset by a \$10 million budget authority decrease in the Heritage Preservation Fund. (This comparison excludes the \$30 million rescission in permanent contract authority proposed for 1981, since the authority is not expected to be used in any event.) For the NPS, the largest requested increase (\$44 million) is for the operation of the national park system, which is offset by a \$41 million reduction in construction of park facilities, visitor centers, and roads.

The proposed 1981 funding for conservation and land management programs is \$48 million below the current request for 1980, which includes a supplemental of \$153 million for fighting forest fires. A similar supplemental request is likely for 1981. If this 1980 supplemental is excluded, the President's request for other conservation and land management programs is about \$104 million, or 3 percent, above the 1980 level. The largest increases are proposed for the Bureau of Land Management (\$53 million, or 13 percent), the land conservation operations of the Soil Conservation Service (\$24 million, or 7 percent), and the Bureau of Indian Affairs (\$14 million, or 21 percent), which are partially offset by a proposed reduction of \$18 million (26 percent) for coastal zone management activities of NOAA. Proposed funding for the Forest Service (excluding the firefighting supplemental) is \$19 million, or 1 percent, above the 1980 level, but 2 percent below the CBO baseline projection.

AGRICULTURE (FUNCTION 350)

This function includes programs that provide farm income security, as well as agriculture research. With the exception of two minor Farm Credit Administration funds, all programs fall under the jurisdiction of the Department of Agriculture.

Function Totals: In Billions of Dollars

	1980 Estimates			1981 Estimates		
	2nd Con. Res.	Pres. Latest Request	CBO Estimate of Pres. Request a/	CBO Baseline Projection	Pres. Budget Request	CBO Estimate of Pres. Request a/
Budget Authority	5.0	5.0	5.0	4.7	5.5	5.5
Outlays	2.55	4.6	5.3	2.4	2.8	2.3

a/ Preliminary, subject to change.

The major program in this function is agricultural price supports and related activities, administered through the Commodity Credit Corporation (CCC). Price support outlays are expected to constitute about 65 percent of total function 350 outlays in fiscal years 1980 and 1981. Other accounts of major importance are the Agricultural Credit Insurance Fund (ACIF), the Federal Crop Insurance Fund, and the Agricultural Stabilization and Conservation Service.

The President's 1981 request for total function 350 budget authority of \$5.5 billion is 10 percent above his 1980 estimate of \$5.0 billion. The largest portion of this growth arises from an increase of \$244 million in the appropriation to restore previously realized losses from CCC price support operations. The remaining increase is primarily for a proposed all-risk crop insurance program (\$111 million) and for various agricultural research and services programs (up \$112 million). The proposed funding for agricultural research and services represents an 8 percent increase over the 1980 level, which is about 1.5 percent above the CBO baseline projection. (The President proposed to cut funding in this area in his 1980 budget). The largest increase is for agricultural research (\$31 million).

The \$1.8 billion net reduction in outlays estimated by the President includes a \$1.3 billion reduction for the ACIF and a \$736 million reduction in CCC outlays. These decreases are partially offset by an increase of \$93 million for a proposed all-risk crop insurance program and a net increase of \$67 million for various other programs.

Summary of Commodity Credit Corporation Price Support Programs: In Billions of Dollars

	FY 1980	FY 1981	
	President's Latest Request	CBO Baseline Projection	President's Request
Budget Authority	3.0	2.6	3.3
Outlays:			
Current Program	0.8	1.3	1.0
Export Suspension Mitigation	2.0	0.4	0.8
Export Credit	---	---	-0.8
Increased Target Prices & Disaster Payments	---	---	0.6
Double-counted Purchase of Food Security Reserve	---	---	0.4
Total Outlays	2.8	1.7	2.1

The President projects outlays for ongoing CCC programs under current law to increase by \$250 million between fiscal years 1980 and 1981. In addition, the Administration estimates that its planned measures to mitigate the effects of the suspension of grain exports to the Soviet Union will increase outlays above the normal level by \$2.0 billion in fiscal year 1980 and by \$0.8 billion in fiscal year 1981; these additional funds are for the purchase of contracts for suspended grain exports, increased storage costs, and resulting increases in the costs of ongoing price support programs and interest. Of the \$2.0 billion added in 1980, \$630 million will purchase 4 million tons of wheat for a Food Security Reserve (which is double-counted in the President's 1981 request as a legislative proposal requiring an additional \$360 million). Legislation is required to exempt these reserves from current restrictions on disbursal for humanitarian needs. CBO

estimates that the proposed steps to alleviate the impact of the suspension of grain exports to the Soviet Union will increase outlays by \$2.4 billion in 1980, assuming no paid diversion program is announced, and by \$0.4 billion in 1981. These differing estimates of the impact of government actions related to the grain embargo, along with the elimination of the double-counting of the Food Security Reserve cost, account for much of the difference between the outlay estimates of the President and CBO for this function.

The President is also requesting a \$200 million increase in the overall level of export credit in 1981 in the form of \$2.0 billion in loan guarantees, compared to \$1.0 billion in guaranteed loans and \$800 million in direct loans in 1980. This shift to loan guarantees, which are not projected to result in any outlays, will result in an \$800 million saving in the 1981 budget. This reduction is partially offset by the President's estimate of increased outlays resulting from greater wheat and feed grain target prices and an extension of disaster payments for the 1980 crop year. The target price and disaster payment provisions assumed by the President are embodied in the Senate-passed form of H.R. 3398, currently in conference, which will require enactment before these increased payments can be made.

The Agricultural Credit Insurance Fund's 1981 outlays are estimated to decrease by \$1.3 billion from the 1980 level. This decrease reflects the sale, to the Federal Financing Bank, of assets acquired in the unexpectedly high volume of 1979 emergency loan operations. These financial transactions, which are made at the Administration's discretion, will offset other ACIF outlays in fiscal year 1981, resulting in a net receipt of \$1.0 billion. Congress is likely to consider legislation to extend the authority for economic emergency loans, which will expire in May, 1980.

The President's major legislative proposal is a nation-wide, all risk crop insurance program, to be funded through the CCC and administered by the Federal Crop Insurance Corporation. The program would extend insurance to counties not currently covered. Start-up costs are estimated to be \$93 million in 1981, with outlays estimated by the President to increase to \$382 million by 1985. Crop insurance legislation has passed the Senate and is pending in the House.

COMMERCE AND HOUSING CREDIT (FUNCTION 370)

Most of the programs in this function are designed to ensure an adequate supply of funds to meet the nation's housing and credit needs. These programs include the mortgage insurance and purchase activities of the Department of Housing and Urban Development (HUD) and the Department of Agriculture (USDA), the federal government's thrift deposit insurance programs and the business loan programs of the Small Business Administration and the Consumer Cooperative Bank. The function also includes funding for the U.S. Postal Service, for parts of the Department of Commerce, and for a number of independent agencies.

Function Totals: In Billions of Dollars

	1980 Estimates			1981 Estimates		
	2nd Con. Res.	Pres. Latest Request	CBO Estimate of Pres. Request a/	CBO Baseline Projection	Pres. Budget Request	CBO Estimate of Pres. Request a/
Budget Authority	6.8	10.1	11.6	5.9	5.9	5.9
Outlays	2.85	5.4	5.4	0.8	0.7	0.7

a/ Preliminary, subject to change.

For fiscal year 1981, the President has requested \$5.9 billion in new budget authority, a decrease of about 40 percent from the \$10.1 billion currently estimated for 1980. Much of this difference does not reflect reduced program levels, but rather financial management decisions by the Administration. As a result of the Farmers Home Administration's direct loan programs (financed primarily from the Rural Housing Insurance Fund) and HUD's mortgage purchase activities, the government acquires large amounts of financial assets. These assets are then sold to private investors in HUD's case and to the Federal Financing Bank in the case of USDA. In view of current market conditions and the anticipated improvement in future months, the Administration intends to delay until 1981 sales originally scheduled for 1980. Since the proceeds from asset sales offset both budget authority and outlays, the decision to postpone sales increases

budget authority needs and outlays in 1980 with corresponding reductions in 1981. This is the principal reason why 1981 budget authority and outlays for these programs are \$2.8 billion and \$4.3 billion, respectively, below the 1980 level.

No budget authority has been requested for 1981 to support the government's thrift insurance activities. The \$1.2 billion of borrowing authority provided in 1980 was for the initial funding of the National Credit Union Administration's Central Liquidity Facility. The Administration budget estimates assume no further needs at least through fiscal year 1985.

To a large extent, the decision to delay asset sales accounts for the difference between current 1980 outlay and budget authority estimates and those assumed in the second concurrent budget resolution. However, function 370 was also affected by a change in the method used to calculate budget authority for some revolving funds. Under the new treatment, agencies such as HUD's Government National Mortgage Association (GNMA) can offset budget authority needs in a given year only with that year's collections. In the past, prior year collections could be used indefinitely. This change has the effect of increasing the amount of budget authority required to support a given program level.

The President has proposed on a demonstration basis for 1981 a new program under which GNMA would provide direct, up-front subsidies to lenders willing to make mortgage loans at below-market rates. These grants would substitute for the discount costs incurred by GNMA when it sells at market yields the below-market loans acquired through its mortgage assistance programs. A \$30 million funding level is proposed for 1981.

The 1981 budget also includes a \$100 million request for USDA's homeownership assistance program (HOAP). This program was authorized in 1978 but has not yet been funded. The Administration estimates that \$100 million would be sufficient to provide HOAP subsidies for about 900 low-income rural households.

Summary of Major Programs--Function 370: In Billions of Dollars

	BA	FY 1980		FY 1981	
		President's Latest Request	CBO Baseline Projection	President's Request	
Farmers Home Administration	BA	2.3	1.3	0.6	
	O	1.8	-1.0	-1.0	
GNMA	BA	1.8	*	0.7	
	O	1.1	-0.3	-0.4	
FHA	BA	0.3	0.3	0.3	
	O	0.1	*	-0.1	
Elderly and Handicapped Housing	BA	0.8	0.9	0.8	
	O	0.7	0.7	0.7	
Thrift Insurance Activities	BA	1.2	---	---	
	O	-1.8	-2.1	-2.1	
Postal Service	BA	1.7	1.7	1.6	
	O	1.7	1.7	1.6	
Small Business Administration	BA	0.8	0.8	0.9	
	O	0.7	0.8	0.9	
Other	BA	1.2	0.8	1.0	
	O	1.1	0.9	1.1	
Total--Function 370		BA 10.1	5.9	5.9	
		O 5.4	0.8	0.7	

* Less than \$50 million

The President's budget request of \$1.6 billion for fiscal year 1980 for the payment to the U.S. Postal Service (USPS) is \$84 million lower than the fiscal year 1979 budget. The reduction primarily reflects a decline in the public service subsidy, which is set by law to decline 10 percent annually through fiscal year 1984, when it levels off at \$460 million. Legislation offered in both the House and Senate in the 95th Congress and the first

session of the 96th Congress would have increased the payment to the USPS by increasing the public service subsidy or by expanding the categories of mail eligible for reduced rates that the Congress subsidizes through the revenue forgone appropriation. The President's request for fiscal year 1981 does not reflect a mail rate increase, which is likely to be approved by the Postal Rate Commission in fiscal year 1981. Therefore, USPS budget authority and outlays may exceed the President's request if either a rate increase is approved or legislation passes expanding postal subsidies.

Budget authority requested for 1981 in the area of other advancement and regulation of commerce (subfunction 376) is \$100 million below the 1980 level, a reduction of 5 percent, while outlays are estimated to increase by \$100 million, or 4 percent. The major decline in this area is in funding for the Bureau of the Census. The 1981 budget authority request is \$450 million below the 1980 level, while outlays are expected to drop by more than \$200 million, because most of the data collection efforts for the decennial census will be completed in 1980.

The decline in census funding is partially offset by proposed increases for the Small Business Administration (SBA) and the Consumer Cooperative Bank. SBA's direct loan levels are estimated to decrease in fiscal year 1981 by \$45 million from 1980 levels, while guarantee loans show an 11 percent increase, from an estimated \$3.6 billion in 1980 to \$4.0 billion in 1981. (Historically, the Congress has approved increases over the President's recommended SBA loan levels.) Despite the moderate growth in loan activity, the business loan program shows a growth in budget authority and outlays from 1980 to 1981 of over 20 percent, primarily because repurchases for guarantee loans are projected to increase by \$200 million from 1980 to 1981.

The Administration is also proposing legislation to consolidate five Small Business Administration (SBA) business loan programs within one lending program. Rather than targeting loans by type, such as energy or general business, the major effort would be to distribute loans to a wider range of recipients, such as minorities and women. The Administration is also recommending that the SBA interest differential of approximately 1 to 2 percent on direct loans be eliminated. Finally, an additional \$11 million is requested to advance women's business enterprise.

The President has requested \$175 million in budget authority in fiscal year 1981 for the activities of the newly created Consumer Cooperative Bank, which is more than double the current funding level of \$74 million.

This includes \$116 million for bank capitalization subscribed by the federal government. The President's current estimates project additional purchases of capital stock by the Treasury in fiscal year 1982 of \$134 million, at which point the \$300 million ceiling authorized by Congress for federal capital purchases would be reached. Unless Congress raises this ceiling, all future sources of funding must come from repayments, revenues, and public or private sales of the Bank's bonds or debentures.

The President's budget in fiscal year 1981 includes \$1.3 million for administrative expenses to service \$1.5 billion in loan guarantees authorized by Congress for the Chrysler Corporation. No budget authority or outlays have been included to cover potential defaults in fiscal year 1980 or beyond, although the President is requesting supplemental language that would appropriate such sums as may be necessary to cover defaults. Therefore, CBO has reestimated the President's fiscal year 1980 budget authority to include an amount representative of the possible government liability in the event of default: \$1.5 billion for guarantee loans and an estimated \$35 million for one quarter's interest payments.

The Administration has proposed legislation for fiscal year 1981 that would authorize annual appropriations for fisheries research and development. Currently, 30 percent of the gross receipts from customs duties on imported fisheries products is transferred annually to the Saltonstall-Kennedy Fund. Fisheries receipts are estimated by the Administration to grow more than 40 percent annually through fiscal year 1985. The President has requested \$20 million in budget authority for this program in fiscal year 1981, and proposes returning the estimated fund balance of \$16 million to the Treasury. The Congress traditionally vetoes proposals by the Administration to transfer or rescind funds for these activities.

TRANSPORTATION (FUNCTION 400)

Function 400 includes surface, water and air transportation activities administered by the Department of Transportation, the Department of Commerce's Maritime Administration, the Panama Canal Commission, and several independent agencies.

Function Totals: In Billions of Dollars

	1980 Estimates			1981 Estimates		
	2nd Con. Res.	Pres. Latest Request	CBO Estimate of Pres. Request a/	CBO Baseline Projection	Pres. Budget Request	CBO Estimate of Pres. Request a/
Budget Authority	19.5	20.9	20.9	22.3	23.6	23.6
Outlays	18.6	19.5	19.0	19.9	20.2	20.0

a/ Preliminary, subject to change.

The budget for this function embodies a number of major policy proposals and initiatives, including the following:

- o Significant changes in the financing of airport and airway development programs. The President proposes to reduce the growing airport and airway trust fund surplus by using a greater amount of the fund for Federal Aviation Administration operating expenses. For equity reasons, he proposes to increase general aviation user taxes.
- o Use of anticipated windfall profit tax receipts to fund energy-related transportation initiatives--\$1.3 billion in 1980, \$1.5 billion in 1981.
- o A new \$1.5 billion freight railroad assistance program targeted to rail line mergers, consolidations, and acquisitions.
- o Absence of a Conrail reauthorization request. Even with the substantial regulatory change that the President has proposed,

CBO estimates that Conrail will probably require 1981 funding in excess of its current authorization in order to maintain its capital improvement program.

Overall, the President requests an increase of \$2.7 billion in budget authority for 1981, 13 percent above the proposed 1980 level. Mass transit programs account for 60 percent of this growth, with the Urban Mass Transit Administration (UMTA) targeted for a \$1.7 billion increase. However, much of the mass transit budget authority increase results from accounting changes and does not represent program growth. When adjusted for these factors, the 1981 budget request is only 7 percent above 1980, representing a real decline in the resources available for transportation programs. (The President's 1980 budget also proposed a real decline in transportation funding). The largest percentage increases are for aviation programs (up 9 percent), water transportation (up 9 percent), and ground transportation programs funded by the proposed Energy Security Trust Fund (up 15 percent), with a net decrease proposed for rail programs (down 7 percent).

The major transportation initiative in this year's budget is the proposed ground transportation energy efficiency program funded by the windfall profits tax, beginning in 1980 and amounting to \$16.5 billion over a ten-year period. Of the \$1.3 billion requested for 1980, \$1.1 billion would fund capital projects, with the remainder going to the states as auto-use management grants. This represents a 10 percent increase over the current 1980 funding level for ground transportation. For 1981, \$1.5 billion is requested--\$1.2 billion for capital projects and \$0.3 billion for auto-use management grants. In the near term, the energy security investments are intended to expand the nation's bus fleet and speed completion of rail transit projects in Miami, Baltimore, Atlanta and Buffalo. In addition, \$400 million of 1981 funds are to help modernize existing rail systems. Over the long-term, the initiatives will greatly increase federal transit capital investment. Total funding from federal sources for public transportation capital investment is estimated to be approximately \$44 billion in the 1980's (\$27.5 billion from general funds and \$16.5 billion from windfall profits tax receipts), compared to approximately \$12 billion in the 1970's.

Summary of Major Programs--Function 400: In Billions of Dollars

	FY 1980		FY 1981	
	President's Latest Request	CBO Baseline Projection	President's Request	
Highways	BA O	9.0 8.3	9.6 8.4	9.5 8.5
Mass Transit	BA O	2.2 2.7	4.1 3.1	3.9 2.8
Rail Programs	BA O	2.2 2.3	2.2 2.1	2.0 1.8
Federal Aviation Administration	BA O	3.2 3.1	3.3 3.3	3.5 3.3
Maritime Administration	BA O	0.5 0.6	0.5 0.5	0.6 0.6
Coast Guard	BA O	1.6 1.6	1.7 1.6	1.8 1.7
Energy Security Trust Fund- Transportation Efficiency	BA O	1.3 0.1	0 0	1.5 0.6
Panama Canal	BA O	0.5 0.5	0.4 0.4	0.4 0.4
Other Transportation	BA O	0.4 <u>0.5</u>	0.5 <u>0.5</u>	0.5 <u>0.5</u>
Total--Function 400	BA O	20.9 19.5	22.3 19.9	23.6 20.2

The President proposes to increase budget authority for other surface transportation programs from \$13.5 billion in 1980 to \$15.4 billion in 1981, a 14 percent increase. Almost \$1.7 billion of this \$1.9 billion increase is attributable to additional UMTA funding, which reflects two significant accounting actions: first, the transition from advance-funded contract authority to a fully appropriated program (\$0.8 billion); and second, the rescission of contract authority in the interstate transfer grant program (\$0.7 billion), which occurred in 1980 and decreased that year's budget authority. Thus, despite the substantial increase in budget authority, the proposed increase in the UMTA program level is only \$165 million (about 4 percent), with the largest increases for urban formula grants (\$120 million), nonurban formula grants (\$25 million), and interstate transfer grants (\$25 million).

Highway spending is targeted for a budget authority increase of approximately \$0.4 billion, or about 5 percent. The major increase of \$448 million is for the federal-aid highways program, for which the funding has already been enacted through 1982. The 1981 budget authority requested for other highway programs is \$467 million, \$37 million less than the 1980 level. As he did last year, the President is requesting no new funding for several highway programs authorized in the Surface Transportation Assistance Act of 1978. These include the off-system roads program, the Alaska highway, highways to public recreation areas, and railroad-highway crossing demonstration projects. Total budget authority for these programs in 1980 is \$101 million.

The relatively small increases requested for ongoing transit and highway programs are partially offset by a proposed decrease in funding for rail programs, with the largest drop coming in payments to Conrail. The President requests a \$185 million appropriation for Conrail in 1981, down from \$641 million obligated in 1980. The \$185 million would deplete Conrail's present \$3.3 billion authorization, and no additional authorization is requested. Under CBO's baseline projections, Conrail will require an estimated \$575 million in 1981, \$390 million more than the present authorization allows. Even with enactment of proposed regulatory reforms and route reductions, Conrail will probably require \$500 million in 1981 to make long-deferred capital and maintenance expenditures.

The President requests no funding for directed rail service payments, a program that will spend an estimated \$90 million in 1980 to keep freight trains running on the Milwaukee and Rock Island railroad lines.

The President is also requesting some increases in funding for rail programs. He proposes to replace the present freight railroad rehabilitation program (\$100 million budget authority in 1980) with an assistance program targeted to rail mergers, acquisitions, and consolidations. The Administration will propose legislation authorizing \$1.5 billion over five years, of which \$250 million is requested for 1981 appropriation. The same program was recommended but not enacted last year. The President requests \$400 million in 1981 for the Northeast Corridor Improvement Project, up from \$381 million in 1980. This represents a \$105 million increase over the current authorization level. The President has sent to Congress legislation to add \$750 million to the \$1.75 billion previously authorized for this program. Even with the additional funding, the Corridor project will include less bridge, electrification, and other work than was originally planned, much of which will have to be completed sometime in the future by Amtrak. Although the workload is reduced, the project will not be completed until 1985 or later, as compared to an original 1983 completion target.

The proposed 1981 funding for Amtrak is \$975 million, almost 12 percent above the \$873 million appropriated for 1980. Part of this increase is for Amtrak's operating subsidy, which continues to grow despite a 13 percent route-mile reduction. Amtrak has been appropriated an operating subsidy of \$630 million in 1980. The President requests \$650 million for 1981 operations, compared to \$600 million in 1979. Implicit in the Administration's request are assumptions of significant operating improvements. Under less optimistic assumptions, Amtrak could require up to \$680 million or more in 1981 to operate the current system. The President proposes continued reduction of Amtrak's approximately \$800 million federal debt through annually appropriated debt retirement payments. He proposes to end Amtrak's practice of temporarily depositing capital appropriations to lower interest payments on the outstanding debt. The budget also contains a request for a \$148 million advance capital appropriation for fiscal year 1982.

The Administration's proposed Airport and Airway Improvement Act will fund most of the activities of the Federal Aviation Administration (FAA) for the years 1981-1985. The Airport and Airway Trust Fund would continue for ten years under the Act. The aviation user tax system would also continue, but with increased general aviation taxes. By funding FAA operations with increased trust fund revenues, the Administration would try to reduce a trust fund surplus estimated to reach \$3.2 billion at the end of fiscal year 1980. The proposed trust fund contribution to FAA operations increases from \$325 million in 1980 to \$1.3 billion in 1981, with the general fund contribution declining from \$1.7 billion to \$1.0 billion. The request for other activities supported by the trust fund, including grants-in-aid for

airports, facilities and equipment purchases, and research and engineering, is 11 percent above the 1980 level. Overall, the 1981 funding request for the FAA is about \$300 million above the 1980 level. This is an increase of about 9.4 percent, which is above the CBO baseline projection. In contrast, the requested funding for the air transportation programs of the National Aeronautics and Space Administration (NASA) and Civil Aeronautics Board (CAB) are 5 percent below the 1980 budget level.

The proposed budget for water transportation shows an increase of \$200 million, or 9 percent, over the 1980 level, substantially above the CBO baseline projection. This category includes programs of the Maritime Administration (MARAD), the Coast Guard, the Federal Maritime Commission, the St. Lawrence Seaway Development Corporation, and the Panama Canal Commission. The budget request for the Coast Guard is \$207 million above the 1980 level, including increases of \$62 million for operations and \$38 million for acquisition, construction, and improvement.

The budget request for MARAD is also up--nearly \$100 million over the 1980 request--including \$34 million more for dry bulk ship construction and \$44 million for operating differential subsidies. Operating subsidy outlays for both 1980 and 1981 will be approximately \$340 million. Even with these subsidies, the U.S. merchant marine industry lags far behind foreign-flag competition in the percentage of cargo carried and the number of merchant marine ships. The Administration is now reviewing Congressional initiatives to promote greater carriage of U.S. imports and exports in American flag ships. If enacted, these initiatives will probably increase MARAD responsibilities and costs substantially.

Preliminary CBO estimates indicate total transportation outlays in fiscal year 1980 of about \$19.0 billion--\$0.5 billion less than the President's estimate. The largest estimating differences are in the federal-aid highway program, for which CBO estimates outlays \$0.2 billion less than the President's--\$7.55 billion versus \$7.75 billion. In rail programs, CBO estimates outlays \$0.16 billion less than the President's, with most of the difference (\$180 million) attributable to the Northeast Corridor project. Other major outlay estimating differences occur in the energy security-ground transportation program (\$55 million), Coast Guard operating expenses (\$46 million), and MARAD's ship construction program (\$40 million).

CBO's estimate for transportation outlays in 1981 are approximately \$0.2 billion less than the President's. CBO estimates lower outlays in the energy security-ground transportation area (\$300 million), the Northeast Corridor program (\$128 million), Amtrak capital expenses (\$45 million), and Coast Guard operating expenses (\$60 million). These differences are partially offset by higher outlay estimates for the Urban Mass Transit Administration--\$300 million, and the Panama Canal Commission--\$30 million. Several other accounts have smaller estimating differences.

COMMUNITY AND REGIONAL DEVELOPMENT (FUNCTION 450)

This function includes programs for community and regional development and disaster mitigation and relief administered by the Departments of Housing and Urban Development (HUD), Commerce, Interior, and Agriculture, as well as the Small Business Administration (SBA) and the Federal Emergency Management Agency (FEMA).

Function Totals: In Billions of Dollars

	1980 Estimates			1981 Estimates		
	2nd Con. Res.	Pres. Latest Request	CBO Estimate of Pres. Request a/	CBO Baseline Projection	Pres. Budget Request	CBO Estimate of Pres. Request a/
Budget Authority	8.9	9.1	9.1	10.5	10.0	10.0
Outlays	8.35	8.5	9.2	9.7	9.0	9.8

a/ Preliminary, subject to change.

The President's fiscal year 1981 budget proposes an increase of \$0.9 billion (10 percent) in budget authority and \$0.5 billion (6 percent) in outlays over his current 1980 request. The 1980 estimate includes several large supplemental funding requests, totaling \$931 million, primarily for disaster relief (\$314 million) and economic development programs (\$596 million), which bring the President's estimate 12 percent above the amounts currently enacted for 1980.

The proposed community development budget provides a 2.5 percent funding increase, with budget authority nearly 6 percent below CBO's baseline projection for these programs. Area and regional development funding would increase less than 6 percent in fiscal year 1981, and funds requested for disaster assistance programs would fall below the levels required in recent years (excluding the \$603 million request for budget authority periodically required by the National Flood Insurance Fund).

The President has proposed no significant program initiatives for function 450 in the fiscal year 1981 budget. Only the inland energy impact assistance and neighborhood self-help programs are budgeted enough additional funding in fiscal year 1981 to provide for growth in excess of projected inflation. Most other discretionary programs are held near or below fiscal year 1980 funding levels, while the proposed business loan authority of the Rural Development Insurance Fund drops considerably (from \$1,066 million in 1980 to \$926 million in 1981).

Community Development Programs

Proposed 1981 funding for the three major programs within this area--community development block grants (CDBG), urban development action grants (UDAG), and rehabilitation loans--is only slightly above the 1980 level. From an average annual growth rate of 13 percent over the years 1978 to 1980, the proposed budget would provide for only 2 percent growth in budget authority in 1981. The President is requesting \$3.95 billion for the CDBG program in 1981, compared to the \$3.90 billion appropriated for 1980, which included \$100 million for settlement of community development obligations made under expired categorical programs. The 1981 request seeks no additional funding for this financial settlement fund. The budget also includes \$675 million for UDAG, the same level as that provided in 1980, and \$188 million for rehabilitation loans, up from \$135 million in 1980.

Several community development programs will require reauthorization for 1981 and beyond, including CDBG and UDAG, the rehabilitation loan fund, comprehensive planning grants, neighborhood self-help grants, and the Neighborhood Reinvestment Corporation. The President's three-year plan would allow the combined budget authority for these programs to grow approximately 4 percent in 1982 and 3 percent in 1983, well below CBO baseline growth rates.

Summary of Major Programs--Function 450: In Billions of Dollars

	FY 1980		FY 1981	
	President's Latest Request	CBO Baseline Projection	President's Request	
HUD Block Grants and Action Grants	BA	4.6	5.0	4.6
	O	3.7	4.8	4.2
Other Community Development	BA	0.5	0.5	0.6
	O	0.8	0.8	0.8
Rural Development and Business Assistance	BA	0.7	0.9	0.7
	O	0.6	0.8	0.8
Economic Development Assistance	BA	1.1	0.6	1.2
	O	0.6	0.6	0.8
Other Economic Development Administration	BA	0.7	0.7	0.8
	O	1.0	0.8	0.9
Bureau of Indian Affairs	BA	1.0	1.1	1.0
	O	0.8	1.0	0.9
SBA Disaster Loans	BA	*	1.2	0.2
	O	0.6	0.8	0.2
Other Disaster Assistance	BA	0.6	1.0	1.1
	O	0.7	0.6	0.7
Offsetting Receipts	BA	-0.3	-0.4	-0.3
	O	<u>-0.3</u>	<u>-0.4</u>	<u>-0.3</u>
Total--Function 450	BA	9.1	10.5	10.0
	O	8.5	9.7	9.0

* Less than \$50 million.

Area and Regional Development

The President is requesting \$3.8 billion in budget authority for area and regional development programs in 1981, a 7 percent increase over 1980 levels and 12 percent above the CBO baseline projection, which is based on 1980 funding to date.

The largest increase is for the Economic Development Administration (EDA), for which the President is also seeking a \$596 million supplemental for 1980. The addition of this 1980 supplemental would result in total budget authority of \$1.1 billion, more than double the 1979 level. In addition, the President is seeking a \$104 million increase for 1981, 9 percent above the requested 1980 level. A substantial portion of the 1981 increase is an additional \$75 million requested for economic development interest subsidies. The budget also includes a total of an additional \$2.5 billion in loan guarantee authority in 1980 and 1981. Legislation authorizing expanded EDA activity awaits conference action.

In addition, the Administration proposes to increase funding for the Department of Energy's inland energy impact assistance program from \$50 million in 1980 to \$150 million in 1981, and plans to propose legislation that would provide grants to states for revolving funds and loan guarantees, extending coverage to a broader range of energy-related projects.

Other area and regional development activities are held at or near 1980 program levels. Funds for rural development and business assistance programs, primarily of the Farmers Home Administration, are increased by 4 percent in 1981, to \$723 million, or nearly \$40 million short of CBO's 1981 baseline projection.

Budget authority for Indian programs is proposed to decrease by \$21 million, or less than 2 percent, in 1981 while outlays are projected to increase \$16 million, or 2 percent, over the same period. The President's 1980 budget proposed a reduction in these programs.

Funding requested for Tennessee Valley Authority development programs drops in 1981 to approximately \$145 million, down from the \$169 million requested for 1980. The 1980 amount includes a proposed one-time \$21 million supplemental to complete the Tellico Dam and reservoir.

Disaster Relief and Insurance

The budget authority requested for disaster relief and insurance represents a significant increase in funding, but does not provide for a

similar program level increase. While requested budget authority increases from \$684 million in 1980 to \$1.3 billion in 1981, \$603 million of the net increase in funds is for the National Flood Insurance Fund, which incurred larger than expected losses in 1979. Funds requested for other disaster relief programs show no net change over those requested for 1980, but are 70 percent less than 1979 funding.

The President is again proposing several changes to restrict Small Business Administration disaster loans to the program's historical constituency of homeowners and farm businesses. These proposals met with marginal success during the first session of the 96th Congress, as both houses approved some of the Administration's proposals. However, the Senate rejected the resulting conference agreement on the authorizing legislation. The President's budget assumes that the requested legislation will be enacted in 1980 and again makes optimistic assumptions about the level of need for disaster assistance during the budget year. The disaster loan fund has required supplemental appropriations in each of the last three years and is likely to need similar additional funding in fiscal year 1980. The \$180 million requested in fiscal year 1981 will fund \$400 to \$500 million in loan activity, a level not experienced since fiscal year 1977. (SBA loan activity totalled \$2.4 billion in 1978 and \$1.3 billion in 1979).

In summary, the President's proposed 1981 community and regional development budget anticipates \$9.0 billion in outlays from a funding level 10 percent above the 1980 level. This outlay estimate is \$500 million above the President's 1980 estimate and nearly \$600 million below 1979 outlays. The drop from 1979 outlays is, in large part, caused by the phaseout of the local public works program enacted in fiscal year 1976. By the start of fiscal year 1980 this program disbursed \$5.4 billion of its \$6 billion appropriation. Accrued CDBG obligations and new EDA funding will push outlays up even further beyond 1981.

The CBO estimate of outlays for both 1980 and 1981 are considerably higher than the President's (\$9.2 billion vs. \$8.5 billion in 1980 and \$9.8 billion vs. 9.0 billion in 1981). CBO's \$9.8 billion 1981 outlay estimate differs from the President's mainly because of differing spendout projections for disaster assistance and community development block grants. In both cases, CBO assumes quicker disbursals.

EDUCATION, TRAINING, EMPLOYMENT, AND SOCIAL SERVICES
(FUNCTION 500)

This function provides federal funds for education, training and employment, and other social services. The new Department of Education administers 40 percent of the funds; another 30 percent support the training and employment programs in the Department of Labor. The remaining funds cover other social services programs primarily administered by the Department of Health and Human Services.

Function Totals: In Billions of Dollars

	1980 Estimates			1981 Estimates		
	2nd Con. Res.	Pres. Latest Request	CBO Estimate of Pres. Request <u>a/</u>	CBO Baseline Projection	Pres. Budget Request	CBO Estimate of Pres. Request <u>a/</u>
Budget Authority	30.9	31.2	30.4	34.1	34.8	34.8
Outlays	31.0	30.6	30.7	32.4	32.0	32.2

a/ Preliminary, subject to change.

The President's request for 1981 is \$34.8 billion in budget authority and \$32.0 billion in outlays. These requests are \$3.6 billion in budget authority and \$1.4 billion in outlays over the 1980 request.

CBO has reestimated the President's requested budget authority down by \$700 million in 1980 reflecting lower interest costs in the guaranteed student loan program (GSLP) and a different treatment of carryover funds in the basic educational opportunity grants (BEOG) program. The Administration considers \$500 million in carryover funds from prior years as 1980 budget authority. CBO does not. CBO has also reestimated outlays upward by \$100 million in 1980 and \$200 million in 1981 on the basis of historical spending patterns in education programs.

Based on CBO estimates of 1980 requirements, the 1981 budget authority request of \$34.8 billion represents an increase of \$4.4 billion over 1980. The 1981 outlays are \$32.2 billion, \$1.5 billion over CBO's estimate for 1980.

The President's 1981 budget request includes new legislative initiatives in the areas of youth education and training, student assistance, and student loans. The President is again proposing increases in social service grants and cutbacks in impact aid payments.

EDUCATION

In fiscal year 1981, the Administration request as reestimated by CBO is \$16.5 billion in budget authority and \$14.6 billion in outlays. This is an increase of \$1.9 billion in budget authority and \$300 million in outlays from the 1980 program level. The budget authority increase is a net figure. It includes \$900 million for a new youth education program, \$300 million to revamp the student loan program and \$1.0 billion to compensate for inflation. The budget authority request has been reduced \$300 million below 1980 levels because of proposed cuts to the impact aid program. Since the education programs are forward funded, only a small fraction of the increased funding will be spent in 1981.

Education Estimates: In Billions of Dollars

	1979		1980		1981		
	Pres. Latest Actual Request	CBO a/ Estimate of Pres. Request	CBO Baseline Projection	Pres. Budget Request	CBO a/ Estimate of Pres. Request		
Budget Authority	14.3	15.3	14.6	16.6	16.5	16.5	
Outlays	12.4	14.2	14.3	14.9	14.4	14.6	

a/ Preliminary, subject to change.

The funding request for the elementary and secondary education programs includes a major youth education and training initiative of \$900 million in budget authority in 1981. The initiative would provide supplementary education grants in basic education and vocational training for school districts with a high concentration of disadvantaged junior and senior high school students.

The President's budget proposes a \$300 reduction in impact aid payments for "3b" children. These payments will be made only if current federal impact aid payments for "3b" children represent more than 5 percent of the school district's budget. In addition, no hold-harmless payments are proposed.

The Administration's 1981 higher education request includes a legislative proposal to restructure the GSLP program. The new proposal would target assistance more directly to students most in need. The \$300 million increase over the 1980 reestimated program level primarily reflects the fact that the new program would require direct appropriations of loan capital.

The Administration's higher education budget request for fiscal year 1981 also assumes full funding of the BEOG program for both 1980 and 1981, with an additional 1981 legislative initiative to increase the maximum award to \$1,900, \$100 over the current maximum. The BEOG program is a nonentitlement grant program. However, for the President to meet the stated goals, CBO estimates that an additional \$300 million in budget authority is needed in both 1980 and 1981. CBO and the Administration project virtually the same number of BEOG recipients. The estimates of total program costs required for full funding, however, differ because the best data available to CBO indicate that average awards will be 7 to 10 percent higher than currently projected by the Administration for fiscal years 1979-1981.

Comparison of CBO and Administration Estimates of Program Levels and Total Costs of the BEOG Program for Fiscal Years 1979-1981

Fiscal Year	Recipients (millions)	Average Award (dollars)	Total Cost (millions)	Total Available Funds (millions)	Total Needed New BA (+) Carryover BA (-)
1979					
CBO	2.7	918	2,478	2,991	-513
Admin.	2.7	855	2,311	2,991	-680
1980					
CBO	2.6	959	2,523	2,231	+292
Admin.	2.6	893	2,322	2,398	-76
1981					
CBO	2.7	996 a/	2,649	0	+2,649
Admin.	2.6	910	2,385	76	+2,309

a/ Adjusted for management savings.

EMPLOYMENT, TRAINING AND SOCIAL SERVICES

In fiscal year 1981, the Administration is requesting a total of \$18.4 billion in budget authority and \$17.6 billion in outlays for employment, training, and social services programs. This is an increase of \$2.5 billion in budget authority and \$1.1 billion in outlays above 1980 levels. The large increase in budget authority is, in part, a reflection of large carry-over balances in CETA from 1979 to 1980, which lowered the 1980 request by \$1.0 billion but did not affect program levels. These large carry-over balances are not expected to reoccur at the end of 1980. The remaining \$1.5 billion increase in budget authority is made up of \$0.3 billion for the new youth initiative, \$0.2 billion for an expansion of public sector employment jobs and \$1.0 billion to compensate for inflation.

Employment, Training and Social Services Estimates: In Billions of Dollars

	1979		1980		1981		
	Actual	Pres. Latest Request	CBO Estimate of Pres. Request a/	CBO Baseline Projection	Pres. Budget Request	CBO Estimate of Pres. Request a/	
Budget Authority	18.2	15.9	15.9	17.5	18.4	18.4	
Outlays	17.2	16.5	16.5	17.4	17.6	17.6	

a/ Preliminary, subject to change.

The \$0.3 billion requested for the new youth initiative represents net new funding over 1980 levels. The President is requesting \$0.8 billion in 1980 to fund two youth employment and training programs for which authorization expires at the end of 1980. The objectives of these two programs will be incorporated in the new initiative proposed for fiscal year 1981, bringing the Department of Labor's total request for their portion of the proposal to \$1.1 billion.

The President's fiscal year 1981 budget authority request includes funding for 450,000 public sector employment (PSE) jobs, an increase of 20,000 jobs over the expected average of 430,000 PSE jobs in fiscal year 1980. This increase in enrollments adds \$200 million above the 1980 funding levels.

The President's 1981 budget authority request also includes an increase of approximately \$1 billion to compensate for inflationary increases between 1980 and 1981. This amount is sufficient to maintain 1980 service levels in 1981.

The Administration's 1980 and 1981 budget authority requests for Grants to States for Social Services (Title XX) are \$0.5 billion above current law. This would fund proposed legislation to raise the ceiling on Title XX basic state grants from \$2.5 billion to \$2.9 billion and to expand the child welfare services program by \$0.1 billion above the current level. This legislation was introduced last year for fiscal years 1980 through 1985 and is currently awaiting conference action. The House has voted to increase the ceiling to \$3.1 billion for fiscal years 1980 and 1981. The Senate has voted to increase the ceiling to \$2.7 billion in fiscal year 1980 and \$2.9 billion in fiscal year 1981.

HEALTH (FUNCTION 550)

This function includes programs for financing and delivering health services, health research programs, programs for educating and training health personnel, and programs promoting consumer and occupational health and safety. Medicare and medicaid account for over 80 percent of all health outlays.

Function Totals: In Billions of Dollars

	1980 Estimates			1981 Estimates		
	2nd Con. Res.	Pres. Latest Request	CBO Estimate of Pres. Request a/	CBO Baseline Projection	Pres. Budget Request	CBO Estimate of Pres. Request a/
Budget Authority	58.8	60.0	59.6	71.6	71.5	71.8
Outlays	54.45	56.5	56.3	65.0	62.4	63.3

a/ Preliminary, subject to change.

The President's 1981 request for health programs shows increases of \$11.5 billion in budget authority and \$5.9 billion in outlays over 1980 levels. According to CBO's estimates of the President's request, however, budget authority will increase by \$12.2 billion and outlays by \$7.0 billion. CBO's higher estimates reflect different economic assumptions, including higher unemployment; higher assumed rates of utilization of health services; and different estimates of proposed regulatory and legislative changes.

The projected \$12.2 billion increase in budget authority consists of \$9.4 billion for medicare, \$2.2 billion for medicaid, and \$600 million for other health programs. The medicare increase includes \$6.5 billion from the hospital insurance payroll tax increase scheduled for January 1980.

The projected \$7.0 billion increase in outlays is the result of \$8.5 billion in program increases -- \$5.8 billion for medicare, \$2.1 billion for medicaid, and \$600 million for other health programs -- offset in part by a \$1.5 billion decrease from proposed administrative and legislative actions. The decrease is composed of \$1.0 billion from proposed legislative reductions in medicare, another \$100 million from s un reductions in medicaid, and \$400 million from proposed administrative reductions in medicare. Legislative proposals again include hospital cost containment and the child health assurance program. Together, the proposed changes in medicare and medicaid and the President's requested real reduction in spending for other health programs would lower outlays below the CBO baseline projection by \$1.7 billion.

MEDICARE

Medicare Outlay Estimates: In Millions of Dollars

	1980 Estimates			1981 Estimates		
	Pres. Latest Request	CBO a/ Est. of Budget Request	Difference	Pres. Budget Request	CBO a/ Est. of Budget Request	Difference
Current Law w/o Program Changes						
	33,820	33,620	-200	39,117	39,066	-51
Program Changes	-280	-170	110	-692	-527	165
Proposed Legislation						
Hospital cost con- tainment	0	0	0	-680	-320	360
Other	1	1	0	-396	-396	0
Total	33,541	33,451	-90	37,349	37,823	474

a/ Preliminary, subject to change.

The medicare program, which includes hospital insurance (HI) and supplementary medical insurance (SMI), is expected to expand through fiscal year 1981. Under current law, CBO projects outlays to increase 15.3 percent in fiscal year 1980 and 16.2 percent in 1981. Although some of this increase is due to growth in the covered population and increases in utilization, the major factor is the continued rise in medical care costs.

CBO projects current law program outlays to be somewhat lower than the President's estimates in both fiscal years 1980 and 1981. This difference is composed of a lower estimate for HI and a higher estimate for SMI in both fiscal years. CBO's HI estimates for 1980 and 1981 are lower than the President's, by \$333 million and \$246 million respectively, primarily because of lower assumed rates of increase in prices of the goods and services purchased by hospitals. The lower price increases are more than offset in SMI by CBO's assumption of higher rates of increase in utilization of services by the covered population.

The President projects savings in current law expenditures to result from a variety of program changes. A recently implemented change in the way hospitals are reimbursed for malpractice insurance expenses is expected to yield savings in fiscal years 1980 and 1981 of \$270 million and \$410 million. CBO's estimates of the savings from this change are \$160 million and \$245 million, primarily because of a lower estimate of the malpractice insurance costs currently incurred by HI. In fiscal year 1981, the President proposes to save \$125 million in HI by modifying or extending the limits on routine hospital costs currently in effect. Additional savings from other measures in HI and SMI are expected to yield net savings of \$10 million in fiscal year 1980 and \$157 million in fiscal year 1981.

The President is proposing legislation that would provide for modest benefit improvements in some areas and substantial savings in others. Several of the benefit improvements would make medicare-covered services more readily available to disabled individuals. The President also proposes to expand the HI home health benefit, by eliminating the prior hospitalization requirement, and the outpatient psychiatric services benefit, by increasing the amount that medicare will pay. The bulk of the offsetting savings would result from the passage of hospital cost containment legislation. CBO's estimate of the savings from this legislation is \$360 million lower than the President's, primarily because of different assumptions concerning the behavioral response of hospitals to the incentives and controls that would be established. Other proposed cost-saving legislation would eliminate the routine nursing cost differential for care rendered to the aged, reduce the amount of reimbursement for hospital-provided long-term care, eliminate coverage of chiropractic services, and make medicare the secondary payer for care of the working aged by requiring their employers to continue their private health insurance coverage.

MEDICAID

Medicaid expenditures will increase rapidly in fiscal years 1980 and 1981. Although medical prices are decelerating, continuing price inflation, ballooning nursing home benefits, and renewed expansion of the AFDC caseload will keep medicaid costs growing by almost 14 percent annually.

Medicaid Outlay Estimates: In Millions of Dollars

	1980 Estimates			1981 Estimates		
	Pres. Latest Request	CBO a/ Est. of Budget Request	Difference	Pres. Budget Request	CBO a/ Est. of Budget Request	Difference
Current Law	14,126	14,081	-45	15,473	15,734	261
Proposed Legislation	34	34	0	296	356	60
Total	14,160	14,115	-45	15,769	16,090	321

a/ Preliminary, subject to change.

Excluding proposed legislation, the Administration projects increases in medicaid outlays of 13.9 percent and 9.5 percent in fiscal years 1980 and 1981 respectively. The comparable CBO figures are 13.5 percent and 11.7 percent. Differences follow from different economic assumptions. The Administration estimates savings of \$43 million in fiscal year 1980 and \$85 million in fiscal year 1981 from new efforts to manage medicaid more efficiently. These amounts are included in CBO's estimates of the President's requests.

The budget includes an assortment of legislative proposals affecting the medicaid program. The Administration estimates the net costs of the proposals to be \$34 million in fiscal year 1980 and \$296 million in fiscal year 1981. Except for the hospital cost containment proposal, CBO has not reestimated the costs of these proposals for the purposes of this report. Much of this legislation already has been proposed and either is being considered or has been considered by the Congress. Such proposals include the child health assurance program (passed the House; reported by the Senate Finance Committee), hospital cost containment legislation (defeated by the House; in the Senate, defeated by the Finance Committee but reported by the Labor and Human Resources Committee), welfare reform (passed the House; awaiting action by the Senate Finance Committee), and several medicaid management reforms (in the House, reported by the Ways and Means Committee and awaiting action by the Commerce Committee; reported by the Senate Finance Committee). New Administration proposals include mandatory coverage of comprehensive care clinics, increased ceilings on federal medicaid spending in the territories, and expanded eligibility for home health benefits.

OTHER HEALTH PROGRAMS

Other health programs include the Public Health Service programs in the Department of Health and Human Services as well as programs--principally for consumer and occupational health and safety--in the Agriculture and the Labor Departments and in other agencies. The President requests \$10.2 billion in budget authority for these programs in fiscal year 1981. Although this represents a 6.0 percent increase over the proposed funding level for fiscal year 1980, it is \$210 million below the amount CBO estimates would be required to maintain the current level of services.

Most health manpower training programs face reauthorization in fiscal year 1980. The President proposes rescinding \$104 million in budget authority for these programs in fiscal year 1980, then cutting that budget authority by another \$85 million in fiscal year 1981. In real terms, funding for health research programs also would be reduced by 3 percent. Most other discretionary programs would be funded at levels sufficient to maintain current levels of services. Substantial increases are proposed for a few selected programs, however, including the National Health Service Corps, support for primary care residencies, funding for health maintenance organizations, and several small programs promoting healthful lifestyles. The President also requests a \$64 million supplemental appropriation for mental health and alcohol abuse programs in anticipation of passage of the Mental Health Systems Act (awaiting committee action in both houses of the Congress).

INCOME SECURITY (FUNCTION 600)

Income security programs accounted for over 32 percent of total federal outlays in 1979. Under the President's 1981 budget request they will increase to almost 36 percent in 1981. The function is dominated by social security, which accounted for nearly 65 percent of income security outlays in fiscal year 1979. Other major income security trust fund accounts include civil service retirement, unemployment insurance, railroad retirement and black lung. The remainder of the function provides cash and in-kind benefits, primarily to low income individuals, through a number of public assistance programs. These include: aid to families with dependent children, supplemental security income, food stamps, school lunch and other nutrition programs, housing assistance, and the refundable portion of the earned income credit. A recent addition to the function is energy assistance for low income households.

Function Totals: In Billions of Dollars

	1980 Estimates			1981 Estimates		
	2nd Con. Res.	Pres. Latest Request	CBO Estimate of Pres. Request a/	CBO Baseline Projection	Pres. Budget Request	CBO Estimate of Pres. Request a/
Budget Authority	218.5	222.1	221.5	246.5	251.5	251.0
Outlays	190.0	190.9	190.5	224.5	220.0	224.2

a/ Preliminary, subject to change.

Most of the income security programs are entitlements. Economic conditions strongly influence their patterns of growth. Benefit levels in social security, supplemental security income, civil service retirement, school lunch and food stamps are indexed to changes in specific consumer price indexes. Recent increases in prices have resulted, and will continue to result, in rapid increases in program expenditures. For example, the anticipated 13.2 percent June 1980 increase in social security benefits estimated as a result of recent increases in the Consumer Price Index will add over \$15 billion to 1981 benefit payments. In addition, caseloads in

unemployment insurance, food stamps, social security, and the unemployed father component of the aid to families with dependent children program are somewhat sensitive to unemployment and labor market conditions.

INCOME SECURITY (FUNCTION 000): BY FISCAL YEAR, IN MILLIONS OF DOLLARS

Item	1980		1981	
	BA	Outlays	BA	Outlays
President's Budget	222,090	190,910	251,450	219,982
CBO Preliminary Reestimates:				
(1) Different economic assumptions:				
OASI	-200	50	-750	-400
DI	-50	50	-200	-250
Civil service retirement	--	--	500	-100
Unemployment compensation	--	-700	--	3,000
Food stamps	-50	-50	200	200
SSI	50	50	--	--
	(-250)	(-600)	(-250)	(2,450)
(2) Other estimating differences				
OASI	--	100	--	1,000
DI	--	150	--	700
Civil Service	-200	50	-100	50
Unemployment Compensation	--	--	--	250
Assistance payments	-150	-150	-100	-200
	(-350)	(150)	(-200)	(1,800)
CBO Estimate of Pres. Budget a/	221,490	190,460	251,000	224,232

a/ Preliminary, subject to change.

In 1981, CBO has reestimated the President's budget authority request downward by \$500 million. The President's outlay request has been

reestimated upward by \$4.25 billion. An important factor in these reestimates is the unemployment rate. For fiscal year 1981, CBO forecasts an average unemployment rate of 7.88 percent, or .43 above the Administration's forecast of 7.45 percent. The higher unemployment rate results in fewer workers making payroll contributions to social security, thereby lowering tax receipts and budget authority. In addition, the higher unemployment rate will increase unemployment insurance recipients, will increase average benefit amounts as more high wage earners become unemployed, and will trigger a national extended benefit program. In unemployment insurance this will add \$3.0 billion to outlays, \$1.8 billion to extended benefit payments and \$1.2 billion to regular state program payments.

The CBO reestimate of the President's outlay request in 1981 is virtually identical to the CBO baseline projection. The President's requests for additional funding in energy and housing assistance are offset by requested cutbacks in railroad retirement, disability insurance, child nutrition, and food stamps. Also, funds for last year's House-passed welfare reform initiative (H.R. 4904) are being treated as a contingency item in function 900. This contingency treatment of welfare reform funding apparently reflects uncertainty within the Administration concerning the final costs of welfare reform and the division of these costs between departments and functions.

Legislative proposals requested in the income security area generally reflect continued Administration support for previously announced proposals. Legislative requests for disability insurance, welfare reform, railroad retirement, child nutrition and food stamps were developed in previous years. In contrast, an Administration proposal to permit borrowing among the three social security trust funds was developed recently to deal with a new social security funding problem.

SOCIAL SECURITY

The CBO current law estimate of social security outlays in 1981 is \$1.1 billion higher than the Administration's. The CBO estimate explicitly takes into account the effect of unemployment, wages and social security benefit levels in determining the number of beneficiaries coming onto the social security rolls. CBO's assumptions of increasing levels of unemployment and falling real wages (wages adjusted for inflation) are projected to result in an acceleration of retirement rates, especially in the disability program.

Social Security Outlay Estimates: In Billions of Dollars

	1980 Estimates			1981 Estimates		
	Pres. Latest Request	CBO Est. of Budget a/ Request	Difference	Pres. Budget Request	CBO Est. of Budget a/ Request	Difference
Current Law						
OASI	104.0	104.2	0.2	121.2	121.7	0.6
DI	<u>15.4</u>	<u>15.6</u>	<u>0.2</u>	<u>17.4</u>	<u>17.9</u>	<u>0.5</u>
OASDI						
Subtotal	119.4	119.8	0.4	138.6	139.6	1.1
Proposed Legislation						
OASI	*	*	*	*	*	*
DI	<u>*</u>	<u>*</u>	<u>*</u>	<u>-0.1</u>	<u>-0.1</u>	<u>0.0</u>
OASDI						
Subtotal	*	*	*	-0.1	-0.1	0.0
Total Outlays						
Total Outlays	119.4	119.8	0.4	138.5	139.5	1.1

*Less than \$50 million.

a/ Preliminary, subject to change.

The major legislative initiative affecting the social security system has no cost effects in fiscal year 1981, but has important structural implications for the social security program. Because the social security system does not respond well to cyclical flows in the economy, the old age and survivors insurance (OASI) trust fund is projected by CBO to be depleted by the end of 1982, and to have cash flow problems before that. The Administration also forecasts OASI financing problems and is proposing that the three trust funds financed by the payroll tax--the old age and survivors insurance, the disability insurance (DI) and the hospital insurance (HI) trust funds--be allowed to borrow from each other when their balances fall below critical levels.

Although the plan to allow this borrowing is not yet drafted, it is expected that repayment, with interest, will be required. If the proposed legislation is enacted, this borrowing could occur before the end of fiscal year 1981.

The Administration is again proposing legislation that would limit disability benefits awarded to recipients with families and to younger disabled workers. The proposals, which are similar to those in a House passed bill, would also provide certain work incentives to disabled workers and strengthen certain disability administrative practices. These provisions would save over \$100 million to the disability insurance trust fund in fiscal year 1981. Pending the transmittal of the effective dates and wording of the various provisions in the Administration's version of the bill, CBO, at this time, has not reestimated the savings from the legislation. A CBO study has, however, estimated that provisions in the House version of the bill could save nearly \$1.5 billion per year by 1985. These proposals, in addition, have costs to other federal programs. These costs, estimated to total less than \$50 million in 1981, accrue to the SSI, HI, SMI and AFDC programs, and are carried separately in these programs' accounts.

The Administration is also proposing a few minor legislative initiatives for OASI that would cost less than \$50 million in fiscal year 1981.

Budget authority in the OASI and DI programs primarily consists of payroll tax receipts. These receipts are a component of social insurance revenues which are discussed in Chapter II. There are a few minor legislation initiatives in the budget which are also discussed in that Chapter. These proposals involve requiring employees to pay the full share of payroll taxes for employee's tips, and requiring a flat 10 percent of compensation be withheld for services performed by independent contractors, for social security purposes.

RAILROAD RETIREMENT

The President has again proposed legislation designed to assure the future financial solvency of the system. The President's proposal to lift the ceiling on earnings subject to railroad retirement terms would add \$249 million to revenues in 1981. A number of proposed benefit changes would reduce outlays by \$70 million in 1981. In addition, proposed legislation would limit the federal contribution to the windfall subsidy to \$350 million.

CIVIL SERVICE

Civil Service Retirement and Disability Trust Fund: In Billions of Dollars

	1980 Estimates		1981 Estimates		
	Pres. Latest Request	CBO Estimate of Pres. Request <u>a/</u>	Baseline Projection	Budget Request	CBO Estimate of Pres. Request <u>a/</u>
Budget Authority	23.8	23.6	25.7	25.9	26.4
Outlays	14.5	14.6	17.0	16.9	16.9

a/ Preliminary, subject to change.

In 1980, CBO reestimates lower the Administration's budget authority request by about \$160 million. The \$130 million of the difference results from CBO's lower covered payroll assumptions. The remaining \$30 million is due to differences in economic assumptions. Specifically, CBO's assumed average interest rate on trust fund investments is slightly below OMB's.

CBO's 1980 outlay reestimate is about \$60 million above the budget request. About \$50 million of the outlay reestimate results from CBO's assumption of higher 1980 annuitant retirement rate. The remaining \$10 million difference is due to CBO's higher assumed cost-of-living adjustment effective March 1980 (6.0 percent versus the Administration's 5.9 percent).

In 1981, CBO's budget authority reestimate is above the budget request by about \$500 million. The \$500 million reestimate is a net figure. CBO is higher by \$750 million due to the inclusion of the effects of the President's proposed 6.2 percent payraise. The President's 1981 civil service request assumes no payraise. CBO is lower by \$150 million due to CBO's lower assumed trust fund investment rates and a lower amortization payment due to lower cost-of-living assumptions. The remaining \$100 million difference reflects a lower CBO federal payroll estimate.

UNEMPLOYMENT INSURANCE

CBO has reestimated the President's outlay estimates in unemployment insurance down \$700 million in 1980 and up \$3.25 billion in 1981. Most of the differences reflect CBO estimates of state benefit payments in the regular and extended benefit programs. As discussed previously, differences in the assumed unemployment rate explain all of the 1980 differences and \$3.0 billion of the 1981 difference.

The remaining \$250 million difference in 1981 reflects slightly higher average weekly benefits projected by CBO. Administration estimates show the average weekly benefit rising from \$89 in 1980 to \$91 in 1981. This represents only a 2 percent increase, considerably below recent experience.

ASSISTANCE PAYMENTS

The President's estimates of outlays for aid to families with dependent children (AFDC) exceed CBO's by \$150 million in fiscal year 1980 and \$200 million in fiscal year 1981. The differences result primarily from the larger number of recipients anticipated by the Administration.

Projections of the Number of AFDC Recipients (Average Monthly Number in Millions)

	<u>Fiscal Year</u>		
	<u>1979 a/</u>	<u>1980</u>	<u>1981</u>
President's Estimates	10.3	10.5	10.8
CBO Estimates	10.3	10.2	10.3

a/ Actual.

A major part of the variation in estimated recipients results from different estimates of average AFDC family size. CBO expects the average to follow its long term trend, decreasing from 2.95 persons per family in fiscal year 1979 to 2.89 in fiscal year 1980 and 2.84 in fiscal year 1981. The Administration, on the other hand, has it leveling off, reaching 2.93 in fiscal year 1980 and 2.92 in fiscal year 1981. About half of the estimated

difference in recipients for fiscal year 1980 is accounted for by this family size factor. In fiscal year 1981, nearly two-thirds of the total difference relates to family size estimates.

Legislation has again been proposed in AFDC to include stepparents' income in calculating AFDC eligibility and benefits, to prorate shelter costs for AFDC children living with nonlegally responsible relatives, and to standardize allowable work expenses. Legislation is also proposed to improve the effectiveness of the child support enforcement program and to double the ceiling on federal matching funds for Guam, the Virgin Islands and Puerto Rico. Together these proposals are estimated by the Administration to save \$249 million in 1981.

FOOD STAMPS

The Administration is requesting a supplemental appropriation of approximately \$2.6 billion for fiscal year 1980. CBO estimates only a slightly lower supplemental, based primarily on different economic assumptions. Current appropriations in the program are capped by statutory language contained in the 1977 food stamp amendments. Because of higher than anticipated food prices, unemployment, and participation rates and further liberalization of the program in 1979, the original statutory ceilings were breached in fiscal year 1979, and will again be breached in fiscal years 1980 and 1981.

The Administration's fiscal year 1981 request assumes enactment of legislation proposed last year and now pending in the House Agriculture Committee that would eliminate the funding ceiling and implement state fiscal sanctions for high error rates. The Administration estimates that a fully implemented fiscal sanction system would reduce food stamp error rates and result in budget savings of approximately \$200 million in fiscal year 1981. With higher rates of unemployment than assumed by the Administration, CBO estimates participation in the program will average about 21.3 million persons and program costs will reach nearly \$9.9 billion--\$200 million higher than the Administration estimates.

SUPPLEMENTAL SECURITY INCOME

CBO assumes a 13.2 percent increase in benefit levels in July 1980, slightly above the 13.0 percent projected by the Administration. Therefore, CBO's 1980 estimates are \$50 million above the President's 1980 estimates.

Since the Administration assumes a higher benefit increase in July 1981 than that assumed by CBO, it offsets the 1981 impact of the July 1980 increase, resulting in similar 1981 levels for CBO and the Administration.

CHILD NUTRITION

The President's budget request again proposes redefining eligibility standards for free and reduced price meals, reducing lunch subsidies by five cents per meal to children from middle and high income families, eliminating private sector firms from the summer feeding program, and capping the reimbursement rate for milk at five cents for children from middle and high income families in schools operating a lunch or breakfast program. The Administration estimates that these proposals would save \$402 million in 1981. In addition, the President's request includes a \$46 million increase in the authorization ceiling for the special supplemental food program (WIC).

ENERGY ASSISTANCE

The President's budget requests \$2.0 billion in 1981 for special energy allowances, an increase of \$800 million over the 1980 funding level. Special energy allowances would provide \$1.6 billion of cash assistance to recipients of the supplemental security income program and grants to states for locally designed programs. The President's budget again requests \$400 million for energy crises assistance to aid low-income families experiencing energy related emergencies. Both programs would be administered by the Department of Health and Human Services.

HOUSING ASSISTANCE

For fiscal year 1981, the Administration has requested about \$33.5 billion in budget authority for low-income housing assistance. Most of this authority is intended for HUD's Section 8 and public housing programs--enough to subsidize an estimated 300,000 additional low-income housing units. This level of assistance represents a substantial increase over the 240,000 units estimated for 1980 but is still less than the 325,000 units funded in 1978 and 1979.

HUD's 1981 budget request proposes a decreased emphasis on new construction activity in the subsidized housing programs. Newly built units assisted with 1981 authority are expected to drop to 60 percent of the total,

from 64 percent currently estimated for 1980. In addition, HUD will ask Congress for permission to allow local public housing authorities to use up to 50 percent of their 1980 and 1981 funds for modernization and rehabilitation of existing units.

HUD is also proposing changes to existing law that will allow the public housing program to be financed through taxable rather than tax-exempt bonds. It is anticipated that these bonds would be sold to the Federal Financing Bank. Since HUD pays the entire debt service on public housing bonds, its costs would be somewhat greater than under the present arrangement because of the higher, taxable, interest payments. These extra costs would be offset, however, by increased tax revenues.

VETERANS' BENEFITS AND SERVICES (FUNCTION 700)

This function provides a variety of benefits and services to veterans, their families and survivors. These benefits include compensation to veterans for service-incurred disabilities and to the survivors of veterans dying in service, income assistance for needy veterans disabled from causes not related to military service, educational benefits for recently discharged veterans, medical care for disabled and elderly veterans, and loan guarantees for veterans wishing to purchase homes.

Function Totals: In Billions of Dollars

	1980 Estimates			1981 Estimates		
	2nd Con. Res.	Pres. Latest Request	CBO Estimate of Pres. Request <u>a/</u>	CBO Baseline Projection	Pres. Budget Request	CBO Estimate of Pres. Request <u>a/</u>
Budget Authority	21.45	21.0	20.9	22.2	22.7	22.6
Outlays	20.8	20.6	20.5	21.8	21.7	21.7

a/ Preliminary, subject to change.

The President's fiscal year 1981 budget requests an increase of \$1.7 billion in budget authority and \$1.1 billion in outlays from fiscal year 1980 levels. Of this increase, \$0.9 billion in budget authority and \$0.8 billion in outlays is requested to fund a 13 percent cost-of-living increase in the rates of disability compensation and dependency and indemnity compensation. The President is also requesting an additional \$0.2 billion in budget authority and outlays for proposed legislation in the readjustment benefits account. An additional \$0.3 billion and \$0.1 billion in budget authority and outlays, respectively, is requested for construction and renovation of certain VA medical facilities. The bulk of the construction projects planned are outpatient and extended care facilities which will help VA control acute care costs in the future. Normal increases for inflation and growth in patient-load account for increases of \$0.3 billion in budget authority and \$0.2 billion in outlays in the other veterans' medical programs.

Differences Between Administration and CBO Spending Estimates: In Billions of Dollars

Item	1980		1981	
	BA	Outlays	BA	Outlays
President's January Request	21.0	20.6	22.7	21.7
CBO Reestimates:				
Compensation	0.1	0.1	0.2	0.3
Pensions	-0.2	-0.1	-0.2	-0.2
Readjustment Benefits	*	*	-0.1	-0.1
Medical Care	0.0	-0.1	0.0	0.0
CBO Estimate of Pres. Request <u>a/</u>	20.9	20.5	22.6	21.7

*Less than \$50 million.

a/ Preliminary, subject to change.

In total, CBO estimates of the President's request are nearly identical to the Administration's figures. The differences in some accounts, are significant but offsetting. The CBO estimates of the compensation account are higher than the President's request because of higher CBO caseload estimates. The lower CBO pension estimates, on the other hand, reflect lower CBO estimates of pension caseload. Both of these discrepancies are the result of different estimating techniques. Since the new pension program has been in operation for less than a year, a great deal of uncertainty remains in estimates of this account. The 1981 CBO reestimate of the President's request for compensation reflects the impact of the President's proposed 13 percent rate increase. According to CBO economic assumptions only a 9.9 percent increase will be needed to cover inflation occurring since the last rate increase.

In the readjustment benefits program, the CBO reestimate of the President's request for budget authority and outlays exceeds the Administration's estimate by about \$30 million in 1980 but falls short of the Administration's 1981 estimate by more than \$50 million. In fiscal year 1981, the CBO estimate of this program, under current law, is \$124 million below the comparable Administration estimate. The President's 1981

request includes a 10 percent cost-of-living increase for readjustment benefits at an estimated cost of \$180 million. CBO's estimate of this proposal is \$91 million higher than the Administration's estimate, because CBO includes the effects of increased trainees induced by the higher rate levels whereas the Administration does not. CBO estimates of the other Administration proposals in this area account for the remaining \$19 million difference between the CBO estimates and the President's request.

The President's 1981 request for veterans' medical care represents an increase of only 5.1 percent in budget authority and 3.0 percent in outlays, while the CPI and the Medical CPI are expected to increase by around 9 percent. The Administration expects to absorb some of the cost inflation through a continued decrease in the average length of stay and a growing emphasis on outpatient rather than inpatient care. In fiscal year 1980, CBO's reestimate of the outlays in this account is approximately \$73 million below the President's requested level, because historical data indicates slower spending than that assumed by the Administration.

Expenditures for medical care in the President's budget are further reduced by a legislative proposal to allow the VA to obtain reimbursement from private health insurers for the treatment of non-service-connected disabilities of insured veterans. The President's budget shows reimbursements of \$45 million in 1980 and \$321 million in 1980 to result from this proposal.

ADMINISTRATION OF JUSTICE (FUNCTION 750)

Function 750 includes the law enforcement and litigative activities of the federal government, administered primarily by the Department of Justice and the Treasury. This function also covers the activities of the Judiciary, in addition to the correctional activities and criminal justice assistance programs of the Justice Department.

Function Totals: In Billions of Dollars

	1980 Estimates			1981 Estimates		
	2nd Con. Res.	Pres. Latest Request	CBO Estimate of Pres. Request a/	CBO Baseline Projection	Pres. Budget Request	CBO Estimate of Pres. Request a/
Budget Authority	4.2	4.3	4.3	4.6	4.7	4.7
Outlays	4.4	4.4	4.5	4.7	4.7	4.7

a/ Preliminary, subject to change.

The President's 1981 budget authority request is \$0.4 billion above the 1980 level (an increase of about 9 percent) and \$0.1 billion above the CBO baseline projection for 1981 of \$4.6 billion. Almost half (\$162 million) of the increase between the President's 1980 and 1981 requests is in the law enforcement area, which would grow by 8 percent. The major increases in this area include \$53 million for the Federal Bureau of Investigation (up 9 percent), \$30 million for the U.S. Customs Service (up 7 percent), \$26 million for the Equal Employment Opportunity Commission (up 22 percent), and \$31 million for the Immigration and Naturalization Service (up 10 percent). The substantial increase in funding proposed for the EEOC reflects the recent reorganization of civil rights activities, and provides for an increase in personnel of 112.

The proposed increase for federal litigative and judicial activities is also above the CBO baseline projection, with budget authority targeted to grow by 9 percent in 1981. The major increases are for activities of the Judiciary (an increase of \$56 million, or 9 percent, over 1980), salaries and expenses for U.S. attorneys and marshals (\$33 million, or 14 percent), and

salaries and expenses for the legal activities of the Department of Justice (\$10 million, or 7 percent).

The President is seeking a similar increase in funding for correctional activities. His 1981 request represents a \$28 million, or 8 percent, increase over the 1980 level, but a decrease of 62 positions.

In the criminal justice assistance area, the President is requesting an \$84 million increase in budget authority for Office of Justice Assistance, Research, and Statistics (OJARS). Most of this increase (\$65 million) is for grants to states and localities for criminal justice programs. While the budget authority increase sought for OJARS is substantial (17 percent), the proposed change in program level is much smaller, because of the availability in 1980 of unobligated balances from previous years. Thus, obligations are projected to rise from \$542 million in 1980 to \$571 million in 1981, an increase of only 5.4 percent. Outlays are estimated to grow by \$38 million to \$607 million, an increase of 6.6 percent. This reverses a steady decline in criminal justice assistance activity since outlays peaked at \$921 million in 1976.

For 1980, the President is requesting an additional \$29 million in supplemental appropriations. Of this amount, \$4 million is for the extension of a seed-money program of grants for the development of state antitrust enforcement, \$2 million is for additional personnel in overseas offices of the Immigration and Naturalization Service and additional police-type vehicles, and \$10 million is being requested to develop the United States trustee program as authorized by the Bankruptcy Reform Act, all within the Department of Justice. Additionally, a supplemental request of \$14 million is proposed for the Secret Service, mainly due to the increased cost of protective travel and Presidential candidate and nominee protection.

GENERAL GOVERNMENT (FUNCTION 800)

The programs in the general government function are designed to carry out the legislative and administrative responsibilities of the federal government. Included in the function are the Legislative Branch, the White House and the Executive Office of the President, and the agencies responsible for personnel management, fiscal operations, and property control.

Function Totals: In Billions of Dollars

	1980 Estimates			1981 Estimates		
	2nd Con. Res.	Pres. Latest Request	CBO Estimate of Pres. Request a/	CBO Baseline Projection	Pres. Budget Request	CBO Estimate of Pres. Request a/
Budget Authority	4.45	4.6	4.6	4.6	4.8	4.8
Outlays	4.2	4.6	4.5	4.5	4.8	4.6

a/ Preliminary, subject to change.

The President's request for fiscal year 1981 of \$4.8 billion in budget authority is \$210 million over the latest request for fiscal year 1980, an increase of 4.6 percent. The largest increase is targeted for the Internal Revenue Service, for which the President is requesting an additional \$193 million, a 9 percent rate of growth. Over \$63 million of this amount is for investigations and collections (an increase of 13 percent), reflecting the Administration's intent to increase the collections staff and improve compliance.

The Legislative Branch estimate for 1981 is \$43 million above the 1980 level, an increase of only 4 percent. The largest portion of that increase is \$20 million for a new Government Printing Office building, an added \$18 million for the General Accounting Office, and \$15 million for Congressional printing and binding. On the other hand, several programs in the Legislative Branch show a decrease from 1980 to 1981, including official mail costs (down \$14 million) and the Architect of the Capitol (down \$40 million). The reduction in funding for the Architect of the Capitol occurs

because no 1981 funds are requested for construction of the extension to the new Senate office building, for which \$53 million was appropriated in 1980.

The President is proposing a 1981 supplemental of \$22 million for the Office of Territorial Affairs of the Department of the Interior. The funds are for federal grants to territories based on matching 50 percent of increased local tax collections.

The major decreases are in expenditures for territories and Treasury payments for claims, judgments, and relief acts. Budget authority for the Trust Territory of the Pacific Islands is proposed to decrease by \$40 million from 1980 levels, largely in the area of capital improvements and grants for the operation of the Trust Territory headquarters. Additionally, required budget authority for claims and judgments, other than awards of the Indian Claims Commission, is also estimated to decrease for 1981, by approximately \$97 million.

Included in the President's request for fiscal year 1980 are several supplementals totaling \$22 million in budget authority and \$54 million in outlays. The Legislative Branch is requesting additional funds in 1980 for allowances and expenses for the House of Representatives, the Temporary Commission on Financial Oversight of the District of Columbia, and for the Government Printing Office to cover increased postage costs, totalling \$15 million in budget authority and \$10 million in outlays. The Office of Territorial Affairs is requesting 1980 supplementals in the amount of \$9 million in budget authority and \$8 million in outlays for grant funds for the Government of the Northern Mariana Islands and the Kwajalein Atoll. For the General Services Administration, the President is requesting an increase in the limitations on availability of revenue for the Federal Buildings Fund, resulting in estimated outlays in 1980 of \$39 million.

GENERAL PURPOSE FISCAL ASSISTANCE (FUNCTION 850)

This function includes general revenue sharing programs, counter-cyclical and targeted fiscal assistance, broad-purposed shared revenues and payments and loans to the District of Columbia.

Function Totals: In Billions of Dollars

	1980 Estimates			1981 Estimates		
	2nd Con. Res.	Pres. Latest Request	CBO Estimate of Pres. Request <u>a/</u>	CBO Baseline Projection	Pres. Budget Request	CBO Estimate of Pres. Request <u>a/</u>
Budget Authority	9.05	8.7	8.7	9.2	9.6	9.6
Outlays	9.05	8.7	8.7	9.0	9.6	9.6

a/ Preliminary, subject to change.

The Administration recommends full funding of the general revenue sharing program to provide \$6.9 billion to States and local governments in 1980. One-third will be allocated to States and two-thirds to local governments. The President is proposing limited modifications in constraints for aid to local governments which would increase the share of payments to communities less able to pay for essential services. The Administration is also proposing a 5-year reauthorization (covering 1981 through 1985) of general revenue sharing at the 1980 levels of \$6.9 billion.

The President is requesting \$0.36 billion in budget authority for the Federal payment to the District of Columbia which is a \$0.172 billion increase over 1980. Loans to the District of Columbia for Capital Outlays are estimated to rise approximately \$0.041 billion as well.

Major legislative initiatives in this function for 1980 include countercyclical assistance as well as a targeted fiscal assistance program for 1980. The proposed targeted fiscal assistance program is a 1-year authorization to provide assistance to localities with unemployment rates of 6.5% or more and if its per capita income does not exceed 150 percent of the national average.

The proposed countercyclical program is similar to the Senate S. 566 bill which triggers payments when the national unemployment rate reaches 6.5%. The Administration is proposing outlays for targeted and countercyclical fiscal assistance at \$0.25 billion in 1980 and \$1.0 billion in 1981. CBO is estimating outlays at the same level. The House is developing an alternative plan for targeted and countercyclical fiscal assistance that would trigger when there is a 2 quarter decline in real wages and salaries and a decline in real GNP.

INTEREST (FUNCTION 900)

The interest function has two major components: interest on the public debt and other interest. Interest on the public debt is the cost of borrowing to finance the public debt. Other interest is composed mostly of offsetting receipts that reflect on- and off-budget agency interest payments to the Treasury for loans outstanding. Budget authority and outlays are identical for both components.

Function Totals: In Billions of Dollars

	1980 Estimates			1981 Estimates		
	2nd Con. Res.	Pres. Latest Request	CBO Estimate of Pres. Request a/	CBO Baseline Projection	Pres. Budget Request	CBO Estimate of Pres. Request a/
Budget Authority	58.1	63.3	62.6	65.1	67.2	65.6
Outlays	58.1	63.3	62.6	65.1	67.2	65.6

a/ Preliminary, subject to change.

The growth in interest on the public debt between 1980 and 1981 is caused primarily by increases in the amount of debt outstanding. (The debt is increased to cover the on-and off-budget deficits and the trust funds' surpluses.) The effects of a larger public debt are offset somewhat by the CBO forecast of declining interest rates. The change in other interest is due to increased agency borrowing (primarily by the Federal Financing Bank) from Treasury, which, in turn, results in larger interest repayments.

Components of the Interest Function: In Billions of Dollars

	1980 Estimates		1981 Estimates	
	Administration	CBO <u>a/</u>	Administration	CBO <u>a/</u>
Interest on the Public Debt	73.3	72.6	79.4	77.8
Other Interest	<u>-10.0</u>	<u>-10.0</u>	<u>-12.2</u>	<u>-12.2</u>
Total	63.3	63.3	67.2	65.6

a/ Preliminary, subject to change.

The only difference between the Administration's estimates and the CBO estimates in both 1980 and 1981 is for interest on the public debt. The CBO estimate of interest on the public debt is lower than the Administration estimate primarily because of different assumptions about the level of interest rates. The Administration estimate assumes higher interest rates in both years. In fiscal year 1980, the Administration interest rate assumption is about 20 basis points higher than the CBO's; in fiscal year 1981, it is almost 50 basis points higher.

ALLOWANCES (FUNCTION 920)

This function is composed of two parts, allowances for civilian agency pay raises and contingencies.

Function Totals: In Billions of Dollars

	1980 Estimates			1981 Estimates		
	2nd Con. Res.	Pres. Latest Request	CBO Estimate of Pres. Request a/	CBO Baseline Projection	Pres. Budget Request	CBO Estimate of Pres. Request a/
Budget Authority	-0.2	1.4	1.2	2.1	3.1	3.0
Outlays	-0.2	1.3	1.2	2.1	2.6	2.5

a/ Preliminary, subject to change.

CIVILIAN AGENCY PAY RAISES

For fiscal year 1981, the President's budget proposes a 6.2 percent civilian agency pay raise. This pay increase reflects provisions in proposed legislation reforming federal pay-setting policy. In essence, the proposed Federal Employees Compensation Reform Act would broaden the comparability concept to include benefits as well as pay and to employ State and local government compensation data. The Administration claims that the proposal would bring federal pay more in line with the non-Federal sector by paying white collar employees on a local basis and changing the blue collar Federal Wage System to provide more accurate comparability with local prevailing rates. In addition, the proposal would separate civilian and military pay rates. The proposed 6.2 percent increase is the Administration's preliminary estimate, which could change substantially upon final transmittal of this proposed total compensation comparability package to Congress. The final pay raise would depend primarily on how the Administration constructs and evaluates the nation-wide non-Federal employer benefit survey.

Relative to current law, the proposal would save almost \$1.1 billion in budget authority and \$1.0 billion in outlays, assuming the Administration's estimated 10.9% comparability raise. If Congress fails to approve the reform bill, the President could cap the federal pay raise at a level below that required to maintain comparability. (Using CBO economic assumptions, an 11.7 percent raise would be required to maintain comparability rather than the 10.9 percent assumed by the Administration.)

The CBO baseline projection estimate assumes an estimated 10.3% raise. This raise would reimburse federal workers for the loss in purchasing power during fiscal year 1980 but would not provide full comparability under either CBO or Administration assumptions. The Administration's proposed 6.2 percent pay raise would reduce this 1981 CBO estimate by about \$0.8 billion in budget authority and outlays.

For both 1980 and 1981, the Administration assumes that some of the pay raise costs will be absorbed by federal agencies. The Administration expects civilian agencies to absorb 20.5 percent of the costs of the 7.0 percent October 1979 raise, about \$250 million less than the full cost. For 1981, agencies would absorb 20 percent of the costs of the 6.2 percent raise, about \$300 million less than full cost.

The sole difference between the President's request and CBO's estimate of the President's request in 1980 and 1981 results from the treatment of trust fund and revolving fund pay raises. CBO carries pay raises for civilian employees paid by these funds within the individual function containing the respective fund. The Administration, however, includes pay raises for all federal employees in function 920. Thus, CBO's reestimate is lower by about \$100 million in budget authority and outlays for 1980 and 1981 in this function.

CONTINGENCIES

Unanticipated contingencies and possible requirements for future initiatives total \$150 million in budget authority and \$100 million in outlays in 1980. In 1981, the \$2.0 billion in budget authority and \$1.5 billion in outlays incorporate allowances for welfare reform proposals as well as unanticipated contingencies.

UNDISTRIBUTED OFFSETTING RECEIPTS (FUNCTION 950)

This function is composed of intragovernmental and proprietary receipts that are not assigned to any other single function. Intragovernmental receipts are payments from one part of government to another; proprietary receipts come from the public.

Function Totals: In Billions of Dollars

	1980 Estimates			1981 Estimates		
	2nd Con. Res.	Pres. Latest Request	CBO Estimate of Pres. Request a/	CBO Baseline Projection	Pres. Budget Request	CBO Estimate of Pres. Request a/
Budget Authority	-19.7	-22.3	-22.3	-24.4	-25.1	-24.1
Outlays	-19.7	-22.3	-22.3	-24.4	-25.1	-24.1

a/ Preliminary, subject to change.

EMPLOYER SHARE-EMPLOYEE RETIREMENT

Employer Share is the federal government's contribution to its employees' retirement plans (civil service, social security, and so forth). The receipt grows each year as a result of federal pay raises, and increases in social security withholding rates (fiscal year 1981 only) and the maximum taxable wage (fiscal years 1980 and 1981). CBO and Administration estimates are virtually identical for this receipt in fiscal year 1980. In fiscal year 1981, the Administration's budget estimate does not reflect the effects of the October 1, 1980 pay raise, but those effects are included in the CBO estimate of the President's request (\$200 million more receipts).

INTEREST RECEIVED BY TRUST FUNDS

Interest received by trust funds is the income which trust funds earn on their investment in public debt securities. Growth for this receipt is based on the net trust fund surplus and on changes in interest rates for public debt securities. CBO estimates the trust fund interest based on its estimate for interest on the public debt; Administration estimates are provided by the agencies. For fiscal year 1980, the estimates are roughly the same. The CBO estimate falls \$200 million below the Administration's estimate in fiscal year 1981 due to lower interest rates and lower trust fund surplus assumptions. Forecasted lower balances in the social security and unemployment trust funds (a result of the CBO economic assumptions) reduce the overall trust fund surplus.

RENTS AND ROYALTIES ON THE OUTER CONTINENTAL SHELF

Receipts are derived from the sale of leases of Outer Continental Shelf (OCS) lands and the royalties from the mineral production. Receipts vary from year to year based on the sale schedule and anticipated bonuses for each sale.

The bonuses received from these lease sales are highly variable. In addition to being dependent upon reserves and other physical factors in the particular area, they are also highly dependent upon the current investment climate. The anticipation of business to price changes in the minerals (oil and gas) and the availability of funds influence the inclination of firms to invest. Recent large increases in the world price of oil and high oil company profits were probably responsible for the near record level bonus receipts in calendar 1979.

The CBO and Administration estimates by sale for fiscal years 1980 and 1981 are listed below. (The Administration weights the total sale revenue by the probability that the sale will be held; its receipts are expected receipts.) The major difference in the estimates is sale A62, Gulf of Mexico. Although both CBO and Administration methodologies rely on the results of past sales, the Administration estimate relies more heavily on the most recent Gulf of Mexico sale, which generated the second highest receipts of any Gulf sale. The Administration estimates sale A62 to be a record sale and CBO does not.

Estimated Outer Continental Shelf Receipts: By Fiscal Year, in Billions of Dollars

	Sale Number, Location, and Date	Administration's Expected Receipts	CBO Estimate
Fiscal Year 1980			
58A	Gulf of Mexico, November 1979	1.4	1.4
--	Beaufort Sea, December 1979	*	*
42	North Atlantic, December 1979	.8	.8
A62	Gulf of Mexico, September 1980	.4	.4
	Escrow Release	.3	.3
	Rents and Royalties	<u>1.8</u>	<u>1.8</u>
	Total, Fiscal Year 1980	4.8	4.8
Fiscal Year 1981			
A62	Gulf of Mexico, September 1980	1.6	.7
55	Gulf of Alaska, October 1980	.2	.2
62	Gulf of Mexico, November 1980	.5	.5
46	Kodiak, December 1980	.2	.2
53	Central and Northern California, May 1981	.3	.5
A66	Gulf of Mexico, July 1981	1.1	.9
56	South Atlantic, August 1981	*	*
60	Cook Inlet, September 1981	*	.1
	Rents and Royalties	<u>2.1</u>	<u>2.1</u>
	Total, Fiscal Year 1981	6.0	5.2

* Less than \$50 million dollars.

CHAPTER V. THE BUDGET OUTLOOK: 1982-1985

The 1981 budget utilizes the multiyear planning system established with the 1980 budget. This system enables the Executive Branch to review estimates for the budget year and the two years following. The 1981 budget thus includes detailed planning estimates for 1981-1983, as well as an extrapolation of these estimates for 1984 and 1985.

A multiyear perspective on the budget has also become a part of the Congressional budget process. Both the first and second budget resolutions for fiscal year 1980 contained explicit targets for 1981 and 1982.

The President's budget for 1982-1985, as reestimated by CBO, projects rapidly rising revenues. Since no tax cuts are assumed, revenues as a percent of GNP would stay at record levels throughout the period. The long-range outlook for spending is dominated by increases for benefits for individuals and national defense. Outlays as a percent of GNP would reach a postwar high of nearly 23 percent.

ECONOMIC ASSUMPTIONS

The federal budget can have a major impact on the economy, and the economy, in turn, has a dramatic effect upon federal revenues and expenditures. High levels of unemployment reduce federal revenues as, at the same time, they increase federal spending for programs such as unemployment compensation and public assistance. High rates of inflation raise both revenues and expenditures. Revenues rise as increasing individual incomes place people in higher tax brackets; expenditures are sensitive to inflation because of the large number of benefit programs that are automatically indexed.

Economic assumptions become even more important when examining the budget from a multiyear perspective. For many programs, such as social security, the effect of economic assumptions is cumulative. Differences in such assumptions have a much more significant impact on budget estimates after a lag of two or three years.

All economic forecasts are subject to a great deal of uncertainty. The range of uncertainty is even greater for economic forecasts more than two years in the future. Consequently, neither the Administration nor CBO has attempted to forecast economic conditions for 1982-1985. Rather, both have made assumptions about real economic growth. The unemployment

rate and inflation projections were then derived based on assumed relationships between economic growth, unemployment, and inflation.

The Administration has assumed economic growth averaging more than 4.5 percent in calendar years 1982-1985 (see Table 25). This growth rate, although not unprecedented, is well above the 3.5 percent average rate of economic growth since World War II. The unemployment rate declines to 4.0 percent--the Humphrey-Hawkins goal--by the end of 1985. The Administration has assumed a decline in the inflation rate in 1982-1985.^{1/} For 1985, the increase in the CPI is only 5.8 percent (fourth quarter to fourth quarter). This reduction in the inflation rate appears optimistic, and is probably caused by the Administration's assumed productivity growth of 2.3 percent annually.

The economic assumptions used by CBO for budget projections and estimates for 1982-1985 assume real economic growth of 3.8 percent per year, slightly above the postwar average. By 1985, the unemployment rate would return to approximately its current level. Inflation is assumed to moderate somewhat. The projected rate of increase in the CPI in 1985 is 7.6 percent, compared to 8.8 percent for 1982. The relationships between economic growth, inflation, and unemployment in the CBO long-range economic projections are based on two critical assumptions:

- o Potential GNP grows at an annual rate of 3 percent.
- o The civilian labor force grows at an annual rate of 1.8 percent.

The differences between the OMB and CBO long-range assumptions lead to different outlay estimates in fiscal years 1982-1985, with the CBO higher unemployment rates and higher inflation rates resulting in more outlays.

The remainder of this chapter includes preliminary CBO reestimates to the President's long-range budget projections, a summary of the President's revenue and outlay projections, and a discussion of the outlook for the budget deficit (or surplus) in 1982-1985.

REESTIMATES TO THE PRESIDENT'S LONG-RANGE BUDGET PROJECTIONS

On the basis of the economic assumptions presented above and with the use of its own estimating techniques, CBO has made a preliminary

^{1/} By 1988, the Humphrey-Hawkins goal of 3 percent inflation is assumed to be achieved.

TABLE 25. COMPARATIVE ECONOMIC ASSUMPTIONS: BY FISCAL YEAR

Economic Variable	1982	1983	1984	1985
Gross National Product (GNP)				
Nominal GNP (in billions of dollars)				
Administration	3,206	3,619	4,052	4,498
CBO	3,210	3,611	4,050	4,529
Real GNP (in billions of 1972 dollars)				
Administration	1,510	1,586	1,664	1,742
CBO	1,495	1,552	1,611	1,672
Growth rate of real GNP (fourth quarter to fourth quarter, percent)				
Administration	4.3	5.0	4.9	4.7
CBO	3.8	3.8	3.8	3.8
Unemployment Rate (fourth quarter, percent)				
Administration	6.5	5.6	4.8	4.0
CBO	7.5	6.8	6.2	5.9
Consumer Price Index (fourth quarter to fourth quarter, percent change)				
Administration	7.9	7.2	6.5	5.8
CBO	8.8	8.2	7.9	7.6
Interest Rate (91-day Treasury bills, percent)				
Administration	8.4	7.7	7.0	6.3
CBO	8.4	7.8	7.6	7.5

reestimate of the Administration's long-range budget projections, assuming the President's policies for 1980-1985. The reestimates result in greater outlays and greater receipts (see Table 26).

The revenue reestimates are largely caused by different assumptions about corporate profits and wages and salaries.^{2/} The Administration

2/ Although the Administration assumes stronger economic growth and, consequently, a larger real GNP, the CBO assumption of more rapid inflation results in a greater nominal GNP by 1985. The revenue implications of the nominal GNP differences are quite small except in 1985, when the higher CBO figure is worth \$8 to \$12 billion in revenues.

TABLE 26. REESTIMATES TO THE PRESIDENT'S LONG-RANGE BUDGET PROJECTIONS: BY FISCAL YEAR, IN BILLIONS OF DOLLARS

	1982	1983	1984	1985
Revenues				
Administration	691	799	920	1,061
CBO reestimates	15	11	19	33
Reestimated revenues	<u>706</u>	<u>810</u>	<u>939</u>	<u>1,094</u>
Outlays				
Administration	686	774	839	903
CBO reestimates	17	24	27	35
Reestimated outlays	<u>703</u>	<u>798</u>	<u>866</u>	<u>937</u>

projects corporate profits, as a share of GNP, to grow from 8.5 percent in fiscal year 1982 to 9.2 percent in 1985, while CBO projects shares of 9.5 percent in 1982 and 10.2 percent in 1985. The higher profits projected by CBO lead to greater corporate income tax revenues. Similarly, CBO projects greater wages and salaries as a share of GNP. The result is higher estimates of individual income tax and social insurance tax revenues.

Preliminary reestimates of spending would increase projected federal outlays by \$17 billion over the outlays in the President's budget in fiscal year 1982 and approximately \$35 billion by fiscal year 1985. The largest reestimates are in benefit payments for individuals (see Table 27). The higher inflation and unemployment rates in the CBO economic projections lead to major reestimates for social security and unemployment compensation. Outlays for national defense under the President's policies would be higher than estimated in the budget. The CBO reestimate is based on spendout rates for defense programs and is consistent with the preliminary reestimate for fiscal year 1981. Outlays for net interest would be higher as the result of higher interest rates in the CBO economic projections and a higher assumed deficit in 1981 and 1982. Other reestimates include preliminary reestimates for a variety of programs ranging from EPA construction grants to offshore oil proprietary receipts.

TABLE 27. REESTIMATES OF FEDERAL OUTLAYS: BY FISCAL YEAR,
IN BILLIONS OF DOLLARS

	1982	1983	1984	1985
Benefit Payments	12.8	16.5	21.1	26.2
National Defense	3.0	4.0	4.0	5.0
Net Interest	0.3	2.3	3.6	5.0
Other	<u>1.1</u>	<u>1.1</u>	<u>-1.3</u>	<u>-1.6</u>
Total	17.2	23.9	27.4	34.6

REVENUES IN 1982-1985

Federal revenues as a percent of GNP would achieve unprecedented levels under the President's long-range budget projections. As reestimated, revenues would grow from 23 percent of GNP in fiscal year 1982 to 25 percent in fiscal year 1985.

The legislative proposals in the 1981 budget would increase revenues above those estimated under a retention of current laws. The revenue gain would be \$28 billion in 1982 and would grow to \$42 billion by fiscal year 1985. The revenue gain is largely the result of the proposed windfall profit tax.

The major source of the projected revenue growth is legislation now in force. In particular, the progressive individual income tax and scheduled increases in social security taxes would increase the tax burden on the average wage earner. Individual income taxes as a percent of taxable personal income would rise from about 14 percent in fiscal year 1981 to almost 18 percent in fiscal year 1985--the highest levels in history. A significant factor in this increase is inflation; inflation-related wage increases tend to move individuals into higher tax brackets. In addition, the social security tax rate is scheduled to rise from 6.65 percent in 1981 to 7.05 percent in 1985. (The current rate is 6.13 percent.)

The Administration acknowledges that it is unrealistic to assume that federal revenues as a percent of GNP will actually rise as fast as in the long-range revenue projections. The budget, however, does not include any

projected tax cuts, preferring not to specify the size and structure of future tax cut proposals.

In the past, the Congress has enacted income tax cuts to offset the effects of inflation on the progressive tax structure as well as to stimulate economic growth. Reductions were made in calendar years 1964, 1969, 1971, 1975, 1976, 1977, and 1978. A more realistic baseline for budget planning may be a revenue projection that includes a discretionary inflation offset to counteract the disproportionate response of the individual income tax to inflation. The offset would reduce revenues by \$24 billion in fiscal year 1982 and \$118 billion by fiscal year 1985. Using this baseline, revenues as a percent of GNP would remain below 22 percent of GNP until fiscal year 1985 (see Table 28). Even with the discretionary inflation offset, however, tax burdens would still be near or above record levels in 1982-1985.

TABLE 28. PROJECTED REVENUES WITH DISCRETIONARY INFLATION OFFSET: BY FISCAL YEAR, IN BILLIONS OF DOLLARS

	1982	1983	1984	1985
Reestimated President's Budget	706	810	939	1,094
Percent of GNP	22.7	23.1	23.9	24.8
Discretionary Inflation Offset	<u>-24</u>	<u>-49</u>	<u>-80</u>	<u>-118</u>
Reestimated President's Budget with Inflation Offset	682	761	859	976
Percent of GNP	21.9	21.7	21.8	22.1

OUTLAYS IN 1982-1985

The President's long-run budget projections, as reestimated, would grow in real terms throughout the 1982-1985 period. Outlays as a percent of GNP would reach a postwar high of 22.8 percent in fiscal year 1983 before declining to 21.3 percent in fiscal year 1985.

Between 1981 and 1985, federal outlays would grow by over \$314 billion (see Table 29). Almost 60 percent of the growth would be for benefit payments for individuals. The rapid growth is attributable to

automatic spending increases for open-ended entitlements and to a major initiative in 1983 for national health insurance. National defense (exclusive of defense retired pay) comprises another 25 percent of the projected growth in spending. Preliminary analysis indicates that, under CBO economic assumptions, the President's budget would result in real growth of 2.5 percent annually in defense.

TABLE 29. PROJECTED GROWTH IN OUTLAYS FOR THE PRESIDENT'S LONG-RUN BUDGET PROJECTIONS AS REESTIMATED: BY FISCAL YEAR, IN BILLIONS OF DOLLARS

	Year-to-Year Changes				Cumulative Change 1982-1985
	1982	1983	1984	1985	
Benefit Payments for Individuals	41	62	40	44	188
National Defense	17	20	20	21	78
Other Grants to State and Local Government <u>a/</u>	4	3	2	1	11
Net Interest	2	1	1	1	4
Other Federal Operations	<u>16</u>	<u>9</u>	<u>5</u>	<u>2</u>	<u>32</u>
Total Change	80	96	68	71	314
Total Outlays	702	798	866	937	
Percent of GNP	22.6	22.8	22.0	21.3	

a/ Some grants to state and local governments are for benefit payments, such as public assistance and medicaid. These grants are classified here as benefit payments to individuals. The other grants category covers grants to state and local governments for purposes other than benefit payments for individuals.

The current dollar increases for grants to state and local governments (other than for benefit payments) total \$11 billion between 1981-1985. The President's long-run budget projections would result in real decline in this category of spending. A primary example of this decline is general revenue sharing, for which the Administration is requesting a five-year authorization

of \$6.9 billion a year. By fiscal year 1985, general revenue sharing would decline by 67 percent in real terms from its 1979 level.

Funding for other federal operations would grow in real terms at an average of 3.8 percent annually. The increases for energy programs and as yet unspecified contingencies for new or expanded programs are concentrated in 1982 and 1983.

The Long-Run Trends in Indexed Benefit Payments

Although the Appropriations Committees have consistently made reductions in the President's budget requests, federal spending has continued to grow in real terms during the past 10 years, as discussed in Chapter III. One of the reasons for this phenomenon is the growth in spending for open-ended programs that provide benefit payments for individuals. Most of these programs are not subject to direct control through the appropriations process.

The competition for appropriated funds is likely to become even more intense over the next five years. Under the President's proposal, the fraction of the budget for benefit payments would grow from 48 percent in 1979 to over 54 percent in 1985.

A major source of the projected growth in outlays for benefit payments are automatic inflation adjustments. The cost of automatic inflation adjustments (using January 1, 1980, as a starting date) is estimated to be \$34 billion in fiscal year 1981 and would accumulate to \$140 billion by fiscal year 1985 (see Table 30).

The Long-Run Effect of Spending Initiatives

A significant factor in the growth of outlays in 1982-1985 involves the continuation and expansion of initiatives proposed in the 1981 budget. The long-range impact of some of the major budget initiatives is given in Table 31.

Expenditures from the energy security trust fund represent a major addition to current policy. Initiatives in the energy area involve energy supply, conservation, ground transportation, and heating bill assistance. Proposals for energy conservation rise from less than \$0.4 billion in the 1981 budget to over \$3 billion in 1985. Likewise, energy initiatives for transportation grow from about \$0.6 to \$1.7 billion between 1981 and 1985. Medicaid expansions, including the Child Health Assessment Program (CHAP), are estimated to add over \$700 million to the 1985 budget. In the

TABLE 30. PROJECTED COSTS OF AUTOMATIC INFLATION ADJUSTMENTS: BY FISCAL YEAR, IN BILLIONS OF DOLLARS

	1981	1982	1983	1984	1985
Social Security and Related Programs	20	35	51	66	84
Federal Employee Retirement	3	6	9	12	15
Medicare/Medicaid	6	9	14	19	26
Unemployment Compensation	2	3	4	5	6
Other	<u>3</u>	<u>5</u>	<u>7</u>	<u>8</u>	<u>9</u>
Total	34	58	85	110	140

TABLE 31. SOME MAJOR INITIATIVES IN THE 1981 BUDGET WITH LONG-RANGE IMPACT ON OUTLAYS: BY FISCAL YEAR, IN BILLIONS OF DOLLARS

	1982	1983	1984	1985
Energy Security Trust Fund	3.6	5.7	6.1	6.2
Medicare and Medicaid Reform (net)	-1.4	-2.0	-3.1	-4.5
Social Security	-0.3	-0.7	-0.9	-1.3
Pay Reform				
Civilian a/	-1.4	-1.7	-2.1	-2.5
Military a/	-2.0	-2.4	-2.9	-3.3
Defense Growth a/	12.0	20.0	26.0	34.0
Education Programs	1.9	2.6	3.1	3.6
National Health Insurance	--	24.1	27.1	30.4

a/ As estimated by CBO.

education area, approximately \$1.0 billion each year is allocated for an initiative in youth education and training. The remaining education funds cover a revised student loan program that is targeted for needy students and includes both direct and guaranteed loans. Other major additions accommodate real growth in defense and institute a national health insurance program in 1983. The effect of real growth in defense rises from \$5 to \$34 billion between 1981 and 1985, while the cost of health insurance will exceed \$30 billion in 1985. Finally, \$6.5 billion has been included in 1982 and more funds in 1983-1985 for contingency requirements yet to be specified. Among the possible uses of these funds is the Administration's welfare reform proposal and additional energy programs.

Proposed reductions are in health programs, pay reform, and social security. Hospital cost containment is estimated to save \$0.8 billion in 1981, but these savings are estimated to grow to almost \$5 billion in 1985. Pay reform, involving changes in the procedures now used to establish comparability with private sector salaries, is estimated to save close to \$6 billion by 1985. Finally, various changes in social security are estimated to reduce expenditures by \$1.3 billion by 1985.

THE BUDGET DEFICIT

The President's long-range budget projections, as reestimated, indicate growing budget surpluses in fiscal years 1982-1985. If the revenues and outlays in the budget were actually achieved, however, the economic growth path assumed for this period would probably not be attainable. The rapid revenue rise in relation to outlays would impose a drag on the economy that would make the assumed economic growth very unlikely. The federal government would be taking more out of the economy in tax receipts than it would be putting back in the form of wages, transfer payments, and purchases. For this reason, the budget margin (that is, the difference between projected revenues and outlays in 1982-1985) should not be construed as a projection of the budget surpluses. Unless the strength of nonfederal demand were to exceed all historical precedent, some or all of the budget margin would have to be used for fiscal policy changes--tax cuts or spending increases--in 1982-1985 if the assumed growth path is to be achieved.

The magnitude of fiscal policy changes in 1982-1985 would be governed by several factors. The autonomous strength of nonfederal demand would play the major role in determining the need for short-term fiscal stimulus. Other things being equal, stronger nonfederal demand (that is, faster growth in consumption, investment, state and local government purchases, and net exports) reduces the need for tax cuts or spending increases to maintain high employment. Monetary policy could also affect

the size of the projected deficit. Assuming a fixed target for economic growth, an expansionary monetary policy would diminish the need for fiscal policy adjustments. The composition of the fiscal stimulus itself could alter the size of the projected deficit, since federal purchases of goods are generally thought to have a larger and more immediate economic impact per budget dollar than transfer payment programs.

A more realistic projection of budget deficits than is contained in the President's budget is shown in Table 32. The projection is based on assumptions about nonfederal demand growth that are more optimistic than the historical averages would suggest.^{3/} Under these assumptions, the budget would be balanced starting in 1983. The ranges given for the deficits represent rough estimates of the effects of alternative assumptions about nonfederal demand and monetary policy.

TABLE 32. THE PROJECTED DEFICIT (-) OR SURPLUS: BY FISCAL YEAR, IN BILLIONS OF DOLLARS

	1982	1983	1984	1985
Point Estimate	-20	--	--	5
Range of Uncertainty	<u>+20</u>	<u>+30</u>	<u>+40</u>	<u>+50</u>

^{3/} The projection was obtained by assuming a relatively small tax cut or spending increase of \$10 to \$15 billion for 1982 and 1983, and larger tax cuts or spending increases for 1984 and 1985. If tax cuts were used, revenues would be lower by over \$150 billion in fiscal year 1985 than under the President's budget as reestimated.

APPENDIX

APPENDIX. MAJOR CONTRIBUTORS TO THE PREPARATION OF THIS REPORT

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